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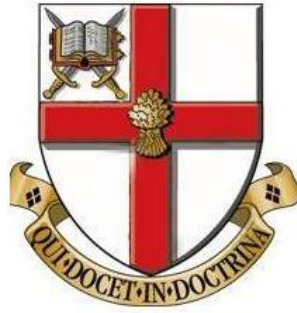
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University of
Chester

The Sources of Trust :

An Empirical Study of Trust and Suspension in the Arve Valley Industrial District

**Thesis submitted in accordance with the requirements of the University of Chester
for the degree of Doctor of Philosophy**

By

Martin Victor Curtis MATHEWS

Under the supervision of Professor P. Stokes and Professor D. Moss

The Sources of Trust:

An Empirical Study of Trust and Suspension in the Arve Valley Industrial District

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Abstract

Strong trust based relationships are one of the pillars of the communitarian model of industrial districts. District literature calls upon trust in order to explain several elements of the model. The existence of trust may explain how a highly fragmented and essentially local value chain reduces transaction costs compared with an integrated firm. It may also allow for closer ties where up to date pertinent information and innovative ideas are transferred between firms. Trusting, long term relationships and district networks are also evoked in the literature as being, in themselves, sources of competitive advantage. Yet despite large sections of district literature calling upon trust to explain the existence and efficiency of industrial districts, few scholars have investigated empirically the sources of trust in local ties. In depth semi-directive interviews with small firm managers in the Arve Valley industrial district near Geneva were analysed in order to examine the context and quality of intra-district relationships (mainly supplier and peers) which were then compared with extra-district links with clients. The sources of trust are analysed by applying Möllering's (2006) model of trust based on reason, routine and reflexivity. Findings indicate that managers rely more on a rational calculation of partner's motives than 'blind' adherence to local, historical norms of behaviour. This finding contributes to the view that districts are organizational fields where agents possess large amounts of information about markets, technologies and partners. Managers also demonstrate a willingness to maintain local links over the long term, thus ensuring a crucial element of their firms' competitive advantage and will adjust their behaviour accordingly. This thesis contributes to district literature by examining detailing the existence and foundations of close intra-district ties created between managers mobilising resources based on cognitive, organisational and geographical proximities. A major contribution to trust literature is the

analysis and discussion of the complex interplay between the three antecedents outlined in Möllering's model in the creation of local trust and proposes that while trust decisions in information rich districts are based more on rational calculation than on local norms and institutions, other trust decisions (with external clients), in the absence of sufficient information are founded on very different bases. This comparison of the foundations of trust in two different contexts highlights the role of identity and routine in the 'leap of faith' or suspension of doubt that is trust.

Keywords; trust, industrial districts, clusters, suspension

General Introduction

Trust is like the air we breathe; we take it for granted until it disappears. Bernie Madoff's clients, like Harold Shipman's patients and Nick Leeson's bosses trusted and thought nothing of it until it was too late. Trust in the world's banking system almost disappeared entirely in the autumn of 2008, freezing up normal, everyday banking transactions and pushing the world's economy to the brink of what would have been a disastrous meltdown.

Philosophers and social scientists throughout the ages have posited trust as so central to civil life; a vital element of society. They have noted its central importance in risky or uncertain situations (Rousseau, Sitkin, Burt, Camerer, 1998). Lewis and Weigert (1985, 968), building on the work of Luhmann, argue that trust is 'a functional prerequisite for the possibility of society' whose only alternative would be the paralysis of fear. Political scientists underline its importance in providing credibility to governments and political institutions (Murphy, 2006). Many have argued that it is the glue that holds society together and the lubricant which facilitates exchanges. The existence of trust creates possibilities for future action which would not exist in its absence (Coleman, 1990). Trust is held to be the cornerstone to economic growth and prosperity (Fukuyama, 1995, Putnam, 1993).

In economics, economic sociology, organization theory and strategy, trust is again held to be a vital component of inter-firm relationships, reducing transaction costs, increasing future investment possibilities and facilitating the rapid transfer of information (Sako, 1998, Li, 2012). Adler, (2001) argues that trusting relationships between agents (within and between organizations) will take on an even greater importance because neither markets nor hierarchies are effective in generating or transferring knowledge when compared to loose network structures, (Bradach and Eccles, 1989, Anderson and Jack, 2002). The presence of trust between firms is, in itself a source of competitive advantage (Barney and Hansen, 1994).

Yet, like so many common everyday words, trust covers a multitude of meanings and it frequently misused (I was contacted many years ago by a survey firm who asked if I trusted Jacques Chirac – my answer - to do what?, left the surveyor nonplussed). It is interesting to note that scholars have spent many years debating a meaning for trust

(Rousseau et al., 1998). Trust is not part of mainstream economics and several economists go so far as to want to exclude trust from business and economic studies, relegating it to private affairs (Williamson, 1993b).

Perhaps scholars shy away from trust because it is such slippery concept to apprehend that even experienced scholars who have studied trust over many years may find it,

‘incredibly easy to become hogtied in the ball of yarn (they) were attempting to unravel’ (Lewicki, Tomlinson and Gillespie, 2006, 993).

Trust contains a fundamental paradox: it is a mechanism used to reduce social uncertainty and yet it contains, in itself, uncertainty; for one may never be sure *ex ante* that our trust is well founded (Lewis and Weigert, 1985). The amount of knowledge necessary for trust is somewhere between total knowledge and total ignorance (Simmel, 1964 in McAllister, 1995) and it is the ‘bracketing’ of this unknowable that is, in fact, the act of trusting (Möllering, 2006).

A frequently used typology regroups three central mechanisms mobilised to explain the creation of trust: reason (or rationality), routine (institutions and ‘normality’ in a broad sense) and reflexivity (process-based trust), (Lane, 1998, Möllering, 2006). Reason, routine and reflexivity provide explanations about how an agent comes to a point where they decide to trust or not. The decision to trust includes some element of calculation (reason). Dietz (2011) suggests that information and its associated issues of availability and assessment is central to the decision to trust. Trust also includes a belief that ‘this is how we do things here’, i.e., it is normal to trust people, for example, in our family, in our clan, or people like us (because I’m honest), or doctors (who play the role that one expects of them). It is morally wrong not to honour trust, to honour one’s word, to play by the rules, etc., but this morality may be subjectively applied to, for example, family and friends rather than business colleagues and partners (Fukuyama, 1995, Hosmer, 1995). Bachmann (2011, 206) argues the pre-eminence of this institutional based trust as ‘indispensable in most complex business systems in which we live’ where interpersonal ‘micro-level’ trust may be frequently impossible in the age of modernity in which we live. One also learns to trust others in a reflexive game of multiple exchanges where one creates and clarify the rules (Ring and Van de Ven, 1994, Bachmann and Inkpen, 2011). People learn about our partner’s trustworthiness and their willingness to play by the rules (if they know them).

One should not, however, confuse the sources of trust with trust itself. Each of the three foundations described above can explain why a particular agent may reach a certain point where they make a decision to trust, passing from a disposition to trust (frequently assimilated to trust by psychologists in trust research): trust as attitude, to trust as choice which leads to enacted trust (Li, 2011). Each of the three foundations can explain why a particular agent may reach a certain point where they make a leap of faith ‘beyond the expectations that reason and experience alone would warrant’, (Lewis and Weigert, 1985, 970), or take ‘a risk above and beyond the level of a trustor’s expected trustworthiness of a trustee’(Li, 2011, 17). This leap of faith, or ‘suspension’ of the unknown or unknowable, this acting out a possible future, and thus realising this possible among many possible futures is, in fact, the act of trusting (Möllering, 2006).

Industrial Districts

Industrial districts are more than a simple juxtapositioning of atomistic entities manufacturing and trading in related industries. They may,

‘be interpreted as cognitive systems; a socio-productive system where knowledge, social experiences, mental modes, and collective beliefs are accumulated in a specific place through time’, (Belussi and Pilotti, 2002, 125).

They represent a community of people bound together by similar values and views (behaviours, expectations etc.) or the ‘economic expression of a community of people’ (Becattini, Bellandi and De Propriis, 2010, 8). These common values are then spread through the district and over generations by a system of institutions (schools, families, churches, professional organizations etc.). An industrial district is a community of strong ties and intra-group bonding (Storper, 2005, Becattini et al., 2010). Geographical proximity aids the development of trust and reciprocity through frequent, information rich, face to face contacts, both planned and serendipitous, in both social and business domains. The frequency and multiplexity of network relationships improves communication, reduces information asymmetries and enhances inter-organizational trust (Sydow, 1998).

My motivation to study trust in the particular context of industrial districts is linked to two problems seen in the literature. Firstly, trust is generally accepted to be axiomatic to the communitarian model of industrial districts and clusters (Harrison, 1992, Dei Ottati, 2002, De Propriis, 2001, Lorenzen, 2002), but the overwhelming emphasis has been that of examining the positive effects of trust on inter-firm relationships in terms of knowledge transfer and reducing transaction costs, rather than empirically examining the factors which contribute to the formation of trust, (Staber, 2007).

Many scholars investigate clusters and districts without devoting more than passing attention to what is an admittedly an elusive concept. There is a lack of empirical research which addresses the question of the creation of trust and its antecedents in districts, or whether there is a qualitative difference in intra-district links compared with extra-district links. Equally and more importantly;

‘the literature lacks a clear and consistent conceptual framework addressing the processes or mechanisms through which trust (or distrust) emerges in a social or economic context’(Murphy, 2006, 428).

The second reason to examine trust in districts is similar to Möllering’s frustration (in the international joint venture literature) that ‘scholars introduce trust as a quick fix or catch-all solution without explaining exactly what they mean by trust’, (Möllering, 2006, 3). Trust is not intrinsically part of mainstream economics, but rather operates as an instrumental and exogenous *deus ex machina* that is called for help if orthodox theory fails to explain a phenomenon under analysis, (Bachmann and Van Witteloostuijn, 2003). In industrial district and cluster literature¹ trust is systematically a) attributed little more than passing attention and, b) given magical cure-all qualities. The specialisation of district firms leads to the possibility of opportunistic behaviour as information asymmetry increases? Invoke trust as the answer (e.g., Dei Ottati, 2002).

Porter’s work on clusters has re-launched the concept and provided clear policy guidelines which have been implemented in many countries and regions, but he remains relatively obscure when examining trust : ‘...the proximity of companies and institutions in one

¹ In our review of trust in industrial district or cluster literature, I will cast our net widely and analyse papers that use both terms interchangeably despite the inherent confusion surrounding these terms, see chapter 4 for a discussion.

location – and the repeated exchanges among them – fosters better coordination and trust’, (Porter, 1998b, 80). As if in order to create trust, all firms need to do is to agglomerate and exchange.

Another example of how trust is glossed over can be found in an otherwise excellent paper analysing arm-lengths and embedded supplier relations in the New York fashion district. Uzzi, (1997), devotes two pages to the concept of trust, but only in the very broadest of terms, even though ‘respondents viewed trust as an explicit and primary feature of their embedded ties’ (Uzzi, 1997, 43). He does not give an adequate definition of trust, nor does he make the link between trust and the embedded ties clear beyond repeating managers’ opinions of the importance of trusting a partner in an embedded tie.

Research Questions

My first research question is to examine whether there are strong trust ties between district actors as the ‘communitarian model’ postulates, (Harrison, 1992, Storper, 2005, Becattini et al., 2010).

My second research question stems from the first; assuming there is more trust inside a district, where does this trust come from? What antecedents and processes lead to this stronger trust and these stronger ties? In order to address this question I shall compare inter-organizational relationships between district firms and between district firms and their (external) clients. In doing so I shall follow Storper’s, (1993), call to acknowledge the importance of shifting analysis from macro-economic and structuralist approaches to those more based on the qualitative behaviours of agents in a network (Sammarrà and Biggiero, 2001), because for Storper;

‘the potential positive externalities of production networks, in the form of technological learning, innovation, and flexibility are only realized – or are differentially realized – according to the concrete qualities of the transacting that is carried out, (Storper, 1993, 437).

Storper’s point of view is supported by recent empirical research which shows that different types of proximities and their effects on intra-districts relationships depend on the

nature of the relationship and call into question the need for close coordination (Aguilera, Lethiais and Rallet, 2012).

My third research questions addresses the relative dominance of one or another of these antecedents of trust in intra-district exchanges; which antecedent seems to carry more weight in trust decision? By extension, I shall examine the inter-play between the three different antecedents of trust, namely reason (calculation), routine (institutional) and reflexion (process).

My fourth research question derives from the fact that these three dimensions of trust cannot individually or collectively explain ‘the leap of faith’ or suspension and I shall examine how agents may trust in the *absence* of sufficient information and seem to trust blindly because it is the natural or normal thing to do. Möllering (2001, 2006), drawing on the work of German sociologist Georg Simmel, invokes the concept of suspension to explain the leap of faith. I was fortunate enough, in the Arve Valley industrial district, to have witnessed not only examples of trusting behaviour but also an example of suspension when SME managers trusted clients and manufactured buffer stocks with no real guarantees, with unfortunate consequences.

This thesis is structured as follows. Part one’s first objective is to define the research object: an industrial district or cluster. This definition is necessary, because of the confusion that reigns in the field around different concepts and appellations that academics have applied to economic agglomeration since Alfred Marshall (1890, 1920) first analysed industrial districts in northern England (Martin and Sunley, 2003). This confusion makes a functioning definition imperative before an attempt can be made to analyse its principal governance mechanism: mutual trust and search for evidence of ‘suspension’.

Part one’s second objective is to illustrate the importance and role of trust as a governance mechanism in networked inter-organizational exchanges (Bradach and Eccles, 1989) and by extension, industrial districts. Trust is frequently evoked in industrial district literature to explain the success and survival of (small) firm productive systems. Trust is evoked to explain reduced transaction costs and rapid diffusion of innovations between firms, but has been subject to very little empirical investigation in the literature.

Part one is divided into four sections. I shall begin by analysing the dyad as the basic ‘building block’ of district relations. Then I consider the role and importance of a firm’s relationships with other organizations and the importance of trust when managing a firm’s interdependence with other partners beyond its control. This vulnerability to others in the absence of control is an integral part of the definition of trust as shall be seen in Chapter II. Part 2 discusses the network as a distinct organizational form of production and the role of trust before discussing the implications of locally situated networks (i.e. industrial districts) and the role of locally developed norms and values by examining the different types of proximity and their influence on inter-firm relationships. Part I finishes with a detailed description of an ideo-typical industrial district.

Chapter II is devoted to an in depth investigation of trust in inter-organizational exchanges. Part1 examines and defines important central elements of trust such as its definition, different levels, and the relationship between trust and uncertainty. In part 2 I shall examine trust as reason: the role of information, logic and ‘calculativeness’ in the decision to trust. Having discussed why trust cannot be reduced uniquely to calculations, I shall proceed in part 3 to examine the institutional foundations of trust. But in the same way that reason cannot solely explain trust, institutions, conventions and routine cannot entirely reduce social uncertainty to a point where trust has no meaning. In part 4, I examine the common sense proposition that trust is built up over time through an interactive game of repeated exchanges. But again, despite solid empirical foundations, trust as reciprocity cannot, like reason and routine, explain trust and particularly cannot explain the first step, the leap of faith, that is trust, and I shall turn our attention to the concept of suspension (‘the leap of faith’) in part 5.

Once I have adequately defined the place and importance of trust in inter-organizational exchanges (Chapter I) and clearly defined the concept of trust (Chapter II) I shall proceed to a detailed review and critique of trust in industrial district and cluster literature (Chapter III).

Chapter IV details the gap in the literature and my research questions, while in Chapter V I will discuss my methodology and describe in detail the Arve Valley industrial district. Chapter VI will present key findings derived from the analysis of the interviews and Chapter VII will discuss these findings in light of the relevant literature.

This research will validate the existence of high levels of trust within the Arve valley industrial district. These findings conform to the district model of a socio-productive cognitive system, (Belussi and Pilotti, 2002). In particular the discussion of the foundations and the interplay of the three antecedents shed light on the cognitive approach to trust creation and the role of information therein. District actors, it would seem, possess sufficient information to make valid trust decisions. However, while trusting local partners has solid foundations and seems straightforward, this is not the case when SME managers must trust beyond district boundaries. I go on to describe how district agents have difficulty trusting outside clients and how they have made trust decisions on very shaky grounds. Following from this, the next question discussed is why down to earth, small business managers have taken such risks as I will describe in Chapter 6. In other words, I will investigate why they made this particular leap of faith. Role and identity seem to be key elements in the managers' vision of their place in the world and their relations with clients. Social learning theory will be mobilised to demonstrate that managers raised, educated and trained in a particular social context have transferred trusting habits which reinforce district firm competitiveness to relationships where they could have been more prudent.

Ultimately, I agree with Lane (1998) in that aim of studying trust is to understand better how a concept so central to societies functioning can be maintained and produced to meet society's needs in the future. Trust is too important a phenomenon to be left to chance, emotions, intuition and spontaneous, serendipitous development. It must be analysed and understood in order to be managed better (Bachmann, 2011). I hope that this study will contribute to the understanding of this common, complex and vital element of our lives.

Chapter I: The Competitive Advantage of Interconnected Firms

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Part I: The Competitive Advantage of Interconnected Firms

Introduction

The first objective of section 1 is to define the object of research: an industrial district or cluster. This definition is necessary, because despite a plethora of literature since the ‘re-discovery’ of Alfred Marshall’s (1890:1997, 1920:2003) industrial districts by strategy researchers, thanks largely to Michael Porter’s work (1990a, 1994, 1998a, 1998b), and what one could call the ‘Italian school’ lead by Giovanni Becattini (1979, 1989, 1991, 2002), there is some confusion as to the precise meaning of the term industrial district² and the differences between an industrial district, clusters and other state and regional policy initiatives based on the supposed advantages of economic agglomeration (Martin and Sunley, 2003). Confusion which makes a functioning definition imperative before an attempt can be made to analyse its principal governance mechanism: mutual trust and search for evidence of ‘suspension’.

The second objective of this section is to illustrate the place and importance of trust as a governance mechanism in inter-organizational exchanges. Trust is frequently evoked to explain the success of (small) firms in industrial districts thanks, amongst other explanations, to reduced transaction costs and rapid diffusion of innovations between firms, but has been subject to very little empirical investigation. I will return to this question of the treatment of trust in industrial district literature in detail in Chapter III.

This chapter is divided into four sections. I shall begin with the dyad as the basic ‘building block’ of district relations. Then I consider the role and importance of a firm’s relationships with other organizations and the importance of trust when managing a firm’s interdependence with other partners beyond its control. This absence of control is an integral part of the definition of trust as will be demonstrated in Chapter II.

In part 2 I shall enlarge my point of view by describing the specific attributes of network production systems drawing on the work of Piore and Sabel (1984), Jarillo, (1993, 1998), Achrol, (1997), and Miles and Snow (1986). With reference to the resource based view

² Witness the tendency of some researchers to analyse ‘industrial clusters’, e.g. Lorenzen, 2002, Montana and Nenide (2008)

(Forgues, Fréchet and Josserand, 2006, Dyer and Singh, 1998, Barney and Hansen, 1994), I will examine the benefits of this type of organizational form and, again, examine the place and importance of trust in network exchanges.

The agglomeration of many small firms in a relatively small space introduces the question of how different forms of proximity influence network relations and trust. In part 3 I shall examine the question of the influence of the local or geographically proximate on decisions to trust in geographically bound networks. This analysis depends on the semantic subtleties of the word proximity (geographic, organizational, cognitive etc.) as highlighted in the works of Gertler, (2003), Boschma (2005a, 2005b) and Torre and Rallet (2004). Proximity in this stream of literature becomes a resource that may or may not be enacted by local (i.e. geographically proximate) firms and actors. The different forms of proximity affect actors' learning capacities and strategies (Pouder and St John, 1996, Maskell and Malmberg, 1999a, 1999b, Maskell, 2001, Malmberg and Maskell, 2006) and contribute to the development of local institutions which restrain and structure social and economic interactions (North, 1990, 1991, 2003, Wood and Barr, 2005). These in turn contribute to the accumulation (or not) of regional-based social capital (Burt, 1997, Walker, Kogut and Shan, 1997, Nahapiet and Ghoshal, 1998) which enables actors to interact more fruitfully on a regional or national level (Putnam, 1993, Fukuyama 2001).

Finally in part 4, I shall examine the industrial district/cluster literature and attempt to outline an ideo-typical industrial district and compare and contrast it to other similar concepts such as Porter's (1990a, 2000a) cluster and other similar models of agglomerated economic activity. In this chapter I will examine the principal characteristics of industrial districts and the place and importance of trust in inter-organizational exchanges in districts because, if an industrial district is a networked local production system where products can go through several production stages (Albino, Carbonara and Giannoccaro, 2005), it is based on a complex network of inter-organizational exchanges (Andersson, Schwaag Serger, Sörvik, Wise-Hansson, 2004).

Trust will be the central theme to these four sections as it is the predominant governance mechanism in networks (Bradach and Eccles, 1989). Industrial districts are made up of many overlapping social and business networks. They are areas of 'homogenous

transaction space' (Wood and Barr, 2005), where local interactions are at the basis of the creation of trust and trusting relationships (the central theme examined in this thesis).

Trust is given many positive attributes in the literature on interfirm exchanges, which Sako (1998) regroups into three themes; reducing transaction costs, investments with future returns and continuous improvement and learning.

The creation and management of trusting inter-firm relationships becomes in itself, a rare, relation specific and difficult to reproduce resource (Barney and Hansen, 1994). The accumulation of trusting attitudes – i.e. trust as a behavioural norm, contributes to the creation of social capital, an 'institutional thickness' according to Amin and Thrift, (1994), whereby trust becomes a positive externality available to all actors in the district. The trust aspect of social capital, as discussed below, permits cooperative behaviour between district firms (Schmitz, 2000, Schmitz and Nadvi, 1999).

Chapter I: The Competitive Advantage of Interconnected Firms

Part 1

The Firm's Organizational Set

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Part I

The Firm's Organizational Set

Introduction

The analysis of firms has moved from the analysis of organizations as atomised units, towards a broader view taking both the organization and its environment into account (Forgues, Frechet and Josserand, 2006, Hakansson and Snehota, 1989, Mindlin et Aldrich, 1975). Academics have turned their attentions to external constraints and contingencies surrounding the enterprise, examining links with other actors such as clients, suppliers, shareholders, the state etc., and even, in the domain of corporate social responsibility, links and obligations between the firm and society at large. This holistic approach has led to a blurring of the traditional boundaries of the firm. Research into industrial districts adheres to this perspective because firms in districts cannot be examined independently of their relationships with other actors. Similarly, an industrial district cannot be examined independently from its social and geographic context. Industrial districts are complex production systems where flexibility and scope for example, are features attributed to the district rather than the individual firms.

If companies do not possess all the resources necessary to accomplish their goals, they must enter into agreements with other organizations and individuals in order to procure them. This necessity to enter into relationships with others outside their sphere of control gives rise to problems of dependence and incertitude (Forgues et al., 2006).

The capacity of an actor (for it is actors who form the interface between firms) to access these external resources, the resources present in industrial district networks for example, resources which are inherently local or regional (Porter, 1994, Maskell, 2001), depends on the quality of the actors' relationships with other members of the network, with other partners in the region (Uzzi, 1997, Andersson, et al., 2004).

If certain critical or strategic resources exist outside firms and these resources are available through standard market mechanisms, then they are available to all competing firms. From this point of view, these resources cannot constitute a source of rent. Porter (1990a, 2000a, 2000b) and Maskell and Malmberg (1999b), propose similar arguments; that all

competitive advantage is local. As globalisation creates global input markets, rare resources such as the capacity of companies to organise and manage tight, trusting relationships where coordination costs are reduced may be uniquely local. It is not, obviously, impossible for firms to create close, trusting relationships with more distant firms. But, as Gertler (2003) points out, it may take longer and demand a more concerted managerial effort to achieve the ends that proximity allows cheaply and rapidly. The resources in question 'are embedded in a network of alliances and represent opportunities. They modify the value and behaviour of the firm', (Lavie, 2006, 638). This local capacity in creating and managing interdependence will be discussed in the second chapter.

While Barney and Hansen (1994) propose that trusting relationships with suppliers and customers etc. could become sources of competitive advantage, Dyer and Singh (1998), suggest that links and inter-firm relationships could *in themselves* constitute sources of rent. Firms that manage to combine their resources in unique ways through trust governed relationships may obtain new, distinctive sources of competitive advantage. 'Idiosyncratic interfirm linkages may be a source of relational rents' (Dyer and Singh, 1998, 661). This thesis is devoted to the analysis of trust relationships between firms in industrial districts who manage all or several of their suppliers, clients etc. through strong, close, trust governed relationships compared with arms-length ties (Uzzi, 1997).

This repositioning of the firm at the heart of overlapping networks has the effect of shifting the analysis of a firm's competitive advantage from the firm itself, beyond the dyad of a partnerships to the firms 'organization set' (Forgues et al., 2006, 18). This idea is illustrated by the success of Toyota (and other Keiretsu or Chaebol), where a major part of the firm's success is derived from its capacity to manage its supply chain (see Dyer et Singh, 1998, Dyer et Ouchi, 1993, for a discussion and comparison of Toyota and its suppliers' margins, or Jarillo, 1993 for similar remarks about Benneton's margins). Industrial districts are examples of geographically concentrated organization sets or overlapping networks, where individual firms derive part of their competitive advantage from their network relationships, especially those with their local suppliers (Porter, 1990a).

That a firm's critical resources may exist beyond its traditional boundaries is explicitly recognised by institutional investors (in the biotechnology sector at least), as shown in Powell's 1996 study of biotechnology start-ups (in Dyer and Singh, 1998). Concerning the

importance and value of interfirm relationships, Baum, Calabrese, and Silverman's (2000) study of Canadian biotechnology firms, demonstrated that the success of start-up firms is conditioned by the composition of their alliances and networks.

1.1a A Multi-dimensional approach to interfirm relationships

Literature on relational governance contrasts 'arms-length' or spot market transactions with repeated exchanges between the same partners. It underlines the embedded relations and temporal continuity of exchanges where individual events are not isolated, but linked one to another (Dwyer, Schurr and Oh, 1987). The definition of relational exchange is 'an on-going dynamic state, no segment of which – past, present, future - can sensibly be viewed independently from any other' (MacNeil, 1974, in Ring and Van de Ven, 1994, 95). Relationships can be defined according to several variables, which are summarized in table 1. The presence or absence of these variables may have an influence on the durability of the relationship (Jackson, 1985).

In the case of long term embedded exchanges, one can begin to theorize the creation of trust based relations between partners in networks. The relational approach is characterised above all by moral notions of equity and fairness (Ring and Van de Ven, 1994). Over time, through repeated exchanges and negotiations, personal relationships develop and increasingly supplement organizational role relationships (Ring and Van de Ven, 1994). Personal relationships lead to faith in the moral integrity of one's partner. This, in turn leads to social-psychological bonds of mutual norms, sentiments and friendship (Ring and Van de Ven, 1994). Blau (1964) also notes that one of the properties of social exchange is to give rise to feelings of personal obligation, gratitude and trust.

For MacNeil (1978), two internal norms are important, 1) harmonising conflict and 2) preserving the relationship. If exchange partners, following this socialising path, develop their own norms and rules of behaviour and ideas of equity or what is fair (Ring and Van de Ven, 1994), then the network can develop forms and modalities of conflict resolution and behaviour which discourages opportunism (often considered the opposite of trust, Barney et al., 1994).

It is possible to conceptualise relationships between firms through different analytical dimensions.

1.1b A Strategic Dimension

As noted above, the strategic dimension of a relation is linked to the necessity of firms to exchange with others in the pursuit of their organizational objectives. This (inter)dependence gives rise to a degree of incertitude as to the reliability of the exchange partner. As will be discussed in Part II, trust is one way that actors deal with uncertainty (Möllering, 2006). The strategic character of the relationship can be analysed according to the temporal element and the distribution of power between the partners, (Prigent-Simon, 2004). In this light, a firm possessing the power to influence the other may destroy the relationship or modify substantially the reward structure of the relationship, causing the dominated partner to choose between voice and exit (Hirschman, 1979).

A relationship between client and supplier represents a productive investment in common objectives and leads to repeated exchanges over time, where the strategy of cooperation leads to the creation of more value than through pure competition (Axelrod, 1992). Game theory highlights the different cases of strategic choices between confrontation and cooperation. The prisoner's dilemma is a well-known game whereby the two criminals implicated in a crime will choose individual strategies (denunciation through lack of trust in the other's motives) which, though logical for each actor, will ultimately result in a worse collective result. This result represents a Nash equilibrium where each criminal cannot change their individual strategy without worsening their personal situation. Axelrod, (1984) showed in a famous prisoner's dilemma type game experiment that by repeating interactions, the most profitable strategy was that of 'tit-for-tat', i.e. cooperate on the first move and then copy whatever the partner has done on the previous round. This strategy wins against all other strategies as long as there are sufficient trustworthy players in the game. I will come back to a more complete analysis of game theories approaches to trust, trusting behaviours and trustworthiness in Part II, in the Chapter on rational approaches to trust.

1.1c The Economic Dimension.

An economic approach to the relationship is characterised by Williamson's transaction cost economics (1975, 1985), where the relationship depends on the specificity (i.e. the uniqueness and transferability) of the assets employed in order to reach the goals of the exchanges. Because these assets (sunk costs) are difficult to redeploy, the relationship must be of a long duration. The party which invests in these assets will be subject to the opportunism of its partner, i.e. vulnerable to their actions and therefore placed in a position of deciding whether to trust or not. Williamson, (1993b), however, rejects the notion of trust in economic exchanges: 'the study of economic organization is better served by treating commercial transactions without reference to trust' (Williamson, 1993b, 99). For Williamson (1993b), actors compute into exchange prices all transaction costs and notably all costs of safeguards and hazards. '...price, hazards and safeguards are determined simultaneously', (ibid, 100). Opportunism is avoided, according to Williamson through the use of contract and credible commitments. The limits to this approach, which assumes monumental calculative capacities in rationally bounded actors, will be discussed in detail in Part II.

1.1.d The Normative Dimension

Firms that wish to maintain equity and fairness in their transactions must deal with the problems of dependence and incertitude. They may wish to structure their relationships around mutual promises, the respect of which becomes a condition of their continued relationship. These mutual promises may take the form of formal or informal, contractual or non-contractual promises (Ring and Van de Ven, 1994). A contract announces each party's obligations and possible sanctions in case of breach of contract. A contractual approach to the supplier-client relationship has its limits in each actor's trust or distrust of institutional arrangements such as contract law, the efficiency and inherent fairness of a particular legal system and, more importantly, the culturally defined view that different parties may have towards the contract itself (Child, 1998). Contracts are records of agreement. They are ways of building trust and are part of building trust in relationships (Ring and Van de Ven, 1994). But detailed contracts designed to limit opportunism also run the risk of expressing distrust explicitly at the beginning of the relationship, thus

limiting the possibility of building up trust as the relationship progresses (Nooteboom, 2006).

Contracts cannot be separated from the social context of their production (Nooteboom, 2002). Classical mainstream socio-legal studies (resumed in Deakin and Wilkinson, 1998) suggest that

‘the true quality of business relationships is to be found in the forms of informal understanding and practices which are not part of the contract itself, but which lie, beyond contract’, (Bachmann, 1998, 314).

Contracts provide the possibility of sanctions. If invoked and the contractors take their dispute to courts, the contract has failed in its main objective (Luhmann, 1979). Legal systems, even in developed, stable democracies, do not necessarily reduce uncertainty. Many businessmen prefer settling out of court as the expression, ‘better a mediocre agreement than a good trial’ attests. Deakin et al. (1998), propose that trust and contract are not necessarily to be opposed, but can work together (to build more trust) when legal sanctions remain in the background (see Torre and Chia, 2001, for a description of the interplay of trust, contract and prices in the creation of inter-organizational cooperation between more than 400 dairy farmers and *Comté* cheese makers).

1.1.e An Informational Dimension

As the relationship develops, the partners acquire new information about the other, particularly concerning their integrity and the respect of previous engagements. Informational asymmetries are reduced over time (Torre and Chia, 2001, Inkpen and Curral, 2004). In this perspective economists and sociologists seem to agree that understanding one’s partner and learning about their objectives and routines increases trust and lowers transaction costs. Williamson (1993a), notes that codes and communication aids which help overcome bounded rationality are important in inter-organizational exchanges (i.e. increased information flows makes it easier for partners to interpret the other’s motives and behaviours). Geographic proximity plays a key role in this learning process as it enables more information rich communication (i.e. face-to-face meetings)

which allows actors to closely observe behaviour and actions and draw and validate conclusions (Malmberg and Maskell, 2002).

1.1f An Affective Dimension

A key sociological approach in the literature is the creation of affective links between actors as the exchanges are repeated. MacNeil (1980) was one of the first sociologists to underline the importance of these inter-personal relationships, noting that the boundary spanners managing inter-organizational links create their own norms of behaviour in what MacNeil calls ‘mini-societies’. In their model of inter-organizational development processes, Ring and Van de Ven (1994), argue that actors pass from playing out organizational roles to personal roles, therefore opening the door as it were to personal feelings and emotions, where one’s partner from the other firm moves beyond a stranger playing an organizational role (Ring and Van de Ven, 1994) to someone who is ‘neither friend nor stranger’, (Lorenz, 1988).

Mutual identification may arise as the relationship develops. Partners get to know each other better. The convergence of cognitive frameworks leads to a better understanding of the others goals’, weaknesses and mistakes (Ring and Van de Ven, 1994, Nooteboom 2002) and therefore continual conflict resolution may lead to higher levels of trust as the relationship progresses.

Strategic Dimension	
Long Term	Time perspective is one of the key aspects of the relationship (Dyer, Schurr, Oh, 1987)
Common Objectives	A degree of goal convergence is necessary (ie. mutual dependence), (Wilson, 1995)
Cooperation	‘Co’ meaning ‘together’ and ‘operari’ meaning ‘work’ (Anderson and Narus, 1990)
Mutual Benefit	The relationship must be a ‘win-win’ situation (Gummesson, 1994)

Power	The capacity of one actor to influence the decisions and behaviour of another (Frazier, 1983)
Dependency	A firm must maintain its relationships with other firms in order to achieve its objectives (Dyer et al., 1988)
Interdependency and relative power	In a healthy relationship, one partner will not be obliged to behave under duress or coercion because of the domination of one firm. The relational approach is characterised by notions of equity and balance between the parties (Wilson, 1995, Kumar, 1996)
Economic Dimension	
Specific Assets	A specific asset cannot be easily used by others. The relationship must therefore be durable (Williamson, 1985). Specific assets imply high switching costs.
Transaction Costs	The cost of the transaction represents the cost of face to face time between the partners (Joffre, 1985)
Uncertainty	Uncertainty is the problem of evaluating <i>ex-ante</i> potential and <i>ex-post</i> costs and benefits (Williamson, 1985)
Normative Dimension	
Contract	Contracts reduce uncertainty concerning opportunistic behaviour, and permit a reduction in relationship costs (Williamson, 1985)
Formalisation and informality	Relationships may combine both formal and informal control mechanisms such as contract and trust (Dwyer and Welsh, 1985)
Informational Dimension	
Bilateral communication	Frequent exchanges and open communication reduce informational asymmetries allows partners to better understand the other's needs, objectives and constraints (Nooteboom, 2002)

Sense-making	Informal sense-making and bargaining promote joint expectations (Ring et al., 1994)
Affective Dimension	
Empathy	Identifying with exchange partner (Nooteboom, 2002)
Commitment	The variable which measures the implicit or explicit promise of maintaining a long term relationship (Dwyer et al., 1987)
Personalisation of the relationship	The passage from the interorganizational level to a personal level as personal relationships take over from organizational roles (Ring and Van de Ven, 1994).

Table 1: Dimensions of Inter-firm Relationships

Summary to Part 1

Organizations are no longer considered isolated entities. As value chains disintegrate, as markets become globalised, firms become more and more specialised. This is indeed a movement foreseen by Adam Smith over two hundred years ago. As firms specialise they must look to other organizations in order to procure resources necessary to attaining their goals. Increased specialisation leads to increased productivity and efficiency but has the corollary of leading to increased dependency on other organizations. This dependency has for effect to increase the levels of uncertainty in the firm's environment. Managing this dependency and uncertainty in the absence of power (i.e. the capacity to control the partner's behaviour) becomes critical to the firms competitive advantage. If resources external to the firm are available on the open market then these resources cannot constitute a source of competitive advantages they are freely available to all. However the *quality* of the relationship and mutual adjustments between firms may become, in itself, a source of competitive advantage. If the quality of the dyadic relationship becomes a source of competitive advantage, then by the same logic, because firms are active in a web of overlapping and interconnected network relationships, managing one's network ties equally becomes an important source of competitive advantage.

As firms manage their external links, they may choose governance mechanisms along a continuum from arms-length market ties to closer, embedded, relational ties. A central element of repeated ties is MacNeil's idea of the creation of 'mini-societies' between the exchanging firms. Repeating ties and mutual adjustments lead to the creation of shared norms of equity and fairness.

Each of the dimensions described above include or allude to an element of trust. The notable exception being Williamson's transaction cost economics where dependency should be managed by contract and credible commitments. Contracts are not ideal solutions because they increase *ex ante* transaction costs and apart from being incapable of including all possible eventualities, may actually increase distrust at the beginning of the relationship. Credible commitments may not reduce transaction costs because of the need for monitoring costs and the initial expenditure required to make the investment credible. Firms in industrial districts manage a variety of relationships from arms-length to embedded. The distinction arms-length – embedded does not necessarily correspond to intra and extra district relationships. District firms can and do create close links with firms

from outside the district (Maskell, Bathelt, and Malmberg, 2006). But when regarding intra-district relationships I could characterize them by the following. They are framed in a long term perspective. Many firms trade with partners over many years and pass on the relationship to their respective children (Mistri and Solari, 2001). Firms in districts are highly interdependent because of their high level of specialisation. At the same time districts are made up of a large number of small firms where there is an absence of dominant partners (this aspect of industrial districts will be discussed in greater detail in Chapter 3), (Paniccia, 1998). Geographic proximity coupled with social proximity increases the opportunity for communication and shared cultural norms and ‘codebooks’ facilitate expectations and reduce the scope for opportunism (Dei Ottati, 1991, 2002). Overlapping business and social networks, combined with frequent exchanges lead to affect based trust (MacAllister, 1995).

Part 2

The Network as a Distinct Organizational Form of Production

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Part 2

The Network as a Distinct Organizational Form of Production

Introduction:

In the preceding chapter I have briefly examined different the dimensions of dyadic relationships as sources of competitive advantage. I will now enlarge the view to investigate inter-firm relations beyond the dyad to the network.

Relationship governance choices have been situated between two extremes, that of the market and the firm (Williamson, 1975). A position which holds that networks are ‘hybrid’ forms of organization governed by contractual arrangements, and are regarded as a stop gap measure which corresponds to intermediate levels of uncertainty or asset specificity (Williamson, 1985). Sociologists such as Powell (1987), Thorelli, (1986), and Podolny and Page, (1998), among others, would argue that a significant proportion of exchanges take place in a different organizational form: networks, which exists *sui generis*.

Networks are organizational forms where non-economic factors such as reputation and trust are complementary to economic ones (Zaheer and Venkatraman, 1995). As discussed above, exchanges in general and in networks in particular, are never completely discrete (i.e. anonymous with limited communication) and all exchanges are socially embedded in the sense that they rely on a minimum of norms and collectively held beliefs, institutions etc. These mechanisms, according to Bradach and Eccles (1989), serve as building blocks for more complex social interactions and structures.

Organizational mutations such as the shift from vertically integrated firms to looser more flexible networks have accelerated in recent years. The disintegration of value chains and vertically integrated firms, the reduction in levels of hierarchies combined with the increase of off-shoring, outsourcing and sub-contracting (with closer or more distant ties between contracting firms), the opening of markets and the globalisation of production have resulted in higher levels of inter-firm exchange and interdependence. Since Piore and Sabel’s defining work of 1984 extolling network forms of production, firms have had to cope with increased environmental uncertainty with the advent of rapid technological

changes, increased competition from new (largely, but not exclusively) east Asian companies, and a change of economic paradigm where information and knowledge have become essential resources in the creation of value and wealth (Achrol, 1997).

The constitution of networks of suppliers, customers etc., around the focal firm is seen by several authors to be an essential path to sustained competitive advantage. Authors such as Achrol, (1997), Miles et Snow, (1986), Thorelli, (1986), Jarillo, (1988, 1993), see the network as the organizational form of the future as vertically integrated firms are replaced by 'networks of specialised firms linked through cooperative relationships' (Achrol, 1997, 2).

This multiplication of interfirm relationships increases interdependence and uncertainty. As companies depend increasingly on others so increases the importance of managing these links. In the absence of direct hierarchal relationships or arms-length trading, trust is proposed as the defining governance mechanism of networks and is central to a networks success (Bradach and Eccles, 1989, Besser and Miller, 2011).

Adler (2001) goes further in a thought provoking essay on the future of networks in general and network production systems in particular. He considers the network as the organizational form most adapted to the 'knowledge economy', where the transfer of knowledge (implicitly tacit knowledge) between firms is hindered on the one hand by market mechanisms (the buyer cannot know the value of the knowledge without buying it first and the seller cannot sell it without revealing it and explaining in detail, by which time the knowledge is already transferred). On the other hand, the production of knowledge is stifled by hierarchy (who does the knowledge belong to? The firm or the inventor? Will the superior claim and appropriate the benefits leaving the employee with the crumbs?). In the absence of enforceable contracts (how does one define tacit knowledge, how to detail the knowledge on offer without divulging it?), trust 'fills in' for uncertainty. For Adler, the development and exchange of knowledge is best conducted through close and trusting networks of firms where exchanges are governed by relational norms, notably trust.

Piore and Sabel (1984) would maintain that networks represent the future, but add that they were more common in the past than many authors realise. And, they are, one might add, a

curious and late enthusiasm for a form of production which Alfred Marshall identified in the north of England in the late 19th century.

Bradach and Eccles (1989), argue that while each of the three organizational forms, markets, hierarchies and networks have their own governance mechanisms, price, authority and trust respectively, firms may use combinations of all three forms (and therefore combinations of governance mechanisms) at different times in different contexts. The crux of their argument is that the three organizational forms are not either/or choices and that they may and do co-exist. Trust remains central to all economic transactions (Arrow, 1973 in Zaheer and Venkatraman, 1995), except perhaps in bazaar economies in failed states (Nigeria, Somalia?) where economic growth is hindered by lack of system trust and transactions are predominately spot market exchanges.

1.2a The Advantages of Networks.

A large part of the (strategic) network literature (and the ‘relational’ governance literature outlined above) stresses economic gains for companies who construct and manage a web of close ties with suppliers, customers and diverse stakeholders. Toyota, even before the crisis of 2008 and 2009, was overtaking General Motors as the largest (and profitable) auto manufacturer in the world. Benetton’s products are systematically copied by competitors, but the Italian firm still turns out its pull-overs and clothes with an estimated 20% cost advantage (Jarillo, 1988). The two firms have created a competitive advantage based on their strategic networks. The contrasting destinies of General Motors and Toyota are good examples of the necessity to manage ones suppliers through trust-based relationships, (see Dyer and Ouchi, 1993, for a discussion on the contrasting methods of supply chain management in different national automobile industries).

Just as there exists many forms of dyadic partnerships, alliances etc., there are also many forms and types of networks. The Benetton and Toyota examples quoted above are strategic networks, where central firms create the web and pull the strings upon which others dance to the advantage of the central or focal firm. (Witness the differences in margins between Toyota and its suppliers, Dyer et al., 1993). Focal firms create their networks in order to control their environment, use their power (technological and/or market position) in order spread risk to those who cannot refuse (De Propriis, 2001).

Participation in a network is generally voluntary (Gulati, 1998, Lavie, 2006, Jarillo, 1988, 1993), and I adopt Podolny and Page's (1998) definition of a network which explicitly excludes the presence of authority because it corresponds to the archetypal industrial district of a heterarchy of small family owned firms (Paniccia, 1998).

A network is;

‘a collection of actors ...who maintain repeated exchanges over time, and at the same time do not possess an organizational authority capable of arbitrating and resolving possible disputes which may arise from these exchanges’, (Podolny and Page, 1998, 59).

What is important in this definition for our future discussion of trust is the absence of a third party capable of imposing solutions through authority. Relationships in the network are between equals (or near equals). This does not imply the absence of power struggles in mutually interdependent relationships, nor does it ignore firms attempting to take the upper hand in the dyad. It should be taken to mean that there is no attempt by leading firms to take dominant positions in industrial districts, as shall be seen in the following section. The dialectic between cooperation and competition (for power as well as for markets) is inherent in all exchange relationships (Forgues et al., 2006, Grandori and Soda, 1995). In the absence of an organization capable of resolving disputes, how do firms manage their dependence on other network members? Trust is proposed as a solution because it is an answer to uncertainty and is defined by vulnerability (Rousseau et al., 1998), as will be discussed more fully in Part 2.

It is for this reason that structures such as Japanese keiretsu and Korean chaebol with central, focal firms, share swaps and a hierarchical power structure are not in my eyes ‘pure’ heterarchies, nor indeed networks in the sense of Podolny and Page's above definition. The question of power and centrality in industrial districts will be discussed below in Chapter 3.

1.2b Learning and Flexibility

Information passes through networks (Powell, 1990). Popular expressions such as, bush telegraph, word of mouth etc., indicate that information passes rapidly through informal channels in networks. Information circulates better and faster in networks than chains of command where information (and the capacity to retain it) is often viewed as a source of power. Information becomes something to divulge in a piecemeal manner with an eye to one's own position and self-advancement. People tend to give more credit to information passed on by someone they know and trust. They are therefore capable of better judging their informant's credibility and honesty (Powell, 1990).

As for markets, neo-classical economic theory suggests that prices are the primary vehicle of information. However prices may be deficient in information particularly when the exchange demands high levels of tacit information and takes place in a context of high social embeddedness, (Powell, 1990, Adler, 2001). Akerloff's (1970) famous 'market for lemons' shows the limits of prices for second hand cars in situations of high information asymmetry. Again, one can see the importance of trusting relationships which become 'pipelines' for up to date, relevant information. Higher quality network ties lead to more information received and passed on (Granovetter, 1973).

A network structure facilitates learning and innovation because interdependent firms are capable of forming and re-forming networks among available partners. Each network reconfiguration amounts to an experiment in innovation. Networks (such as those in industrial districts), increases the total number of possible experiments, easily exceeding the organizational innovation capacity of hierarchies (Hamel, 1991, Maskell, 2001). Successful experiments, whether organizational or technological, are rapidly copied by others in the network. In industrial districts, geographic proximity and 'informational transparency' (Maskell, 2001), allow companies to copy successful innovations through simple observation, even without interaction. The circulation of information in industrial districts is all the more efficient and rapid thanks to the juxtaposition of social and business networks (Mistri, 2003, Mistri and Solari, 2001). At the dyadic level, the capacity of a firm to share tacit information and part of its knowledge base, thanks to trusting relationships, facilitates the network's collective learning capacities (Jarillo, 1993).

Summary to Part 2

Relational Governance and Trust

Networks represent significant competitive advantages in terms of flexibility and knowledge transmission than either markets or hierarchies. Exchanges tend to be repeated over time and contribute to deeper more personal relationships between boundary spanners.

The interpersonal relationships that develop in the network take on their own life and some scholars maintain that these deep relationships alter actors' behaviour, introducing an affective or even moral element into the relationship. Interpersonal relationships in networks and the accompanying essential element of trust, means that;

‘individual or collective actions of the group differ from the behaviour associated with either pure or market-contracting or hierarchically organised relationships’ (Gordon and McCann, 2000, 520).

If a stream in the literature underlines the creation of norms and rules through dyadic and network exchanges where exchanges create ‘mini-societies’ (MacNeil, 1978, 1980, Ring and Van de Ven, 1994), then Dei Ottati, (1994), in her discussion of opportunism and cooperation in industrial districts goes further by declining to use the word network and replaces it with the term community, which according to her ‘expresses better the fact that the various parties coordinate their actions (through) reciprocal adjustment’ (p70). In the framework of repeated exchanges at least, one is far from the neo-classical instantaneous, anonymous, discrete exchange.

A final important aspect of network governance is the absence of control of network partners over other members. This absence of control is a central element of the definition of trust that I will discuss in Chapter II.

Part 3

Industrial Districts as Geographically Defined Networks

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Part 3

Industrial Districts as Geographically Defined Networks

Introduction

The study of industrial districts is an excellent application of Krugman's (1991) proposition that time and space should be (re)introduced into economic analysis. In section I have developed the idea that trust was a central pillar of a firm's management of its 'relational set' (Forgues et al., 2007). In this third section I shall continue the reflection by examining the interaction of proximity and territory on network creation and management. The place of the local in strategy is a research theme that had been largely ignored by strategy researchers until Michael Porter's (1990a) work stimulated interest in the relationship between space and strategy.

The question addressed in this section is, what are the effects of geographic concentration on embedded relationships between networked firms and what is the role of trust in these relationships? In order to address this question three factors will be examined: the effects of proximity in all its forms on inter-firm relationships, the construction of network (i.e. local in this case) norms and institutions, (Ring and Van de Ven, 1994, Lane and Bachmann, 1996) and the possible creation of regional social capital (Putnam, 1993) rising from embedded horizontal and vertical relationships.

I.3a Notions of proximity.

The economist considers space to be uniform and smooth where distance equals friction. That is to say that distance is reduced to a transport costs, but this friction is uniform across all space. This 'smoothness' of space is one reason why the 'lumpiness' represented by the co-localisation of firms has posed problems for economists. Managers, however, and particularly managers of small and very small companies (and industrial districts are composed of a majority of SMEs, Paniccia, 1998), seem to perceive of space in a rather different manner from economists. Managers of small companies have a distinct preference for 'the here and now' (Mahé de Boislandelle, 1996). Managers mobilise perceptions of proximity as an organising principle (Torrès, 2003, 2004). The small company is

considered a personal affair, and managers accord more credibility and trust to closer external actors (closer in geographic and industrial, or organizational terms) than to more distant actors. Torrès' (2003, 2004) research dealt with small business owners' perceptions of what is important, relevant, trustworthy etc. in very general terms. In a later empirical paper, Torrès and Gueguen (2008) test this concept and confirm the idea that geographic proximity reduces perceptions of uncertainty for SME managers. Proximity plays a central role in the entire decision making process and is possibly a fundamental explanation of bounded rationality, (Torrès and Gueguen, 2008).

Rallet (2002) takes a relational view to define local. Geographic distance remains a subjective concept to the actor in terms of time and cost. Rallet maintains that the frontiers of local are determined by relations of proximity. Torrès, (2003), sees this tendency in companies approach to innovation, where smaller firms prefer local partners for innovation.

Proximity is 'when agents can meet each other physically each day' (Rallet, 2002, 17). Proximity offers a resource; that of direct, frequent, face-to-face contacts between people, organizations and institutions (Rallet, 2002). These frequent meetings, contacts etc., whether by design or serendipity, increase the amount of information available to decision makers, thus reducing uncertainty. It is not sufficient however for agents to physically meet each other every day for the resource of proximity to be enacted. Proximity is an enabling resource, the key question is what agents do and achieve thanks to their 'co-proximity' (Rallet, 2002). Proximity is a multi-dimensional concept and different forms may interact in different ways (Aguilera et al., 2012).

Torre and Gilly (2000), define four different dimensions of proximity; cognitive, institutional, organizational and geographic. Industrial districts are founded on the interactions of socially, cognitively, organizationally and geographically proximate actors, where a community of people assimilate a production technology (Becattini et al., 2010). Industrial districts draw attention to the capacity of agents to build on the various dimensions of proximity when coordinating their actions (Wood and Barr, 2005). I shall examine the first three forms of proximity and their relation to geographic proximity before examining proximity's links with regional social capital.

1.3b Cognitive Proximity.

Proximity literature is currently dominated by preoccupations of knowledge creation and knowledge transfer between firms and in particular between firms and agents within clusters and industrial districts. Proximity literature attempts to explain the following quote from Porter and Stern (2001, 29);

“Innovation and commercialisation of new technologies takes place disproportionately in clusters – geographic concentrations of interconnected companies and institutions in related fields”.

Innovation is driven by “competitive pressure, peer pressure, customer pressure and constant comparison... (which are)... inherent in a cluster” (Porter and Stern, 2001, 30). The ease of transmission of information and tacit knowledge in clusters and districts, plus the high rates of entrepreneurial activity (Schmitz and Nadvi, 1999), is part of the explanation of economic agglomeration’s (i.e. clusters and industrial districts), continued existence in a world of digitalised information and instantaneous communication (see Maskell, and Malmberg, 1999a, 1999b, Maskell, 2001). Put in its simplest terms, geographical proximity facilitates the transfer of tacit knowledge. Tacit knowledge (by definition), being difficult to codify and therefore difficult to transport and share (Gertler, 2003). The fact that ideas do not travel well would explain the persistence of industrial districts as information about competitive enhancing innovations is transmitted through local business and social networks (Lorenzen, 1998, 2005, Mistri and Solari, 2001). These flows of information are facilitated by other forms of proximity and mediated by trusting relationships.

The localised and overlapping networks in industrial districts facilitate the transfer of information and knowledge. Successful experiments are seen, heard about, understood and copied rapidly through the district by ‘expert’ actors who detect and understand the slightest signals of colleagues and competitors (Malmberg and Maskell, 1997, Maskell 2001). In the perspective of ecology of populations (Hannan & Freeman, 1977), an industrial district survives thanks to the superior adaptive capacity of individual firms (Lorenzen, 1998, 2002).

Measuring knowledge spillovers is a notoriously difficult enterprise. In an interesting empirical paper on the effects of learning and proximity, Lublinsky (2003) found that proximity effects were relatively small in the German aeronautic industry. However, this research ignored a) the power structure in this industry where one focal firm (Airbus) ‘controlled’ many others and b) the geographic scope of the study was the entire Federal Republic, meaning that ‘local’ and ‘proximity’ were poorly defined.

The territory’s stock of knowledge resides in local firms, universities, research centres, administrations etc. and may provide a distinctive regional competitive advantage which fuels local firms’ competitiveness (Belussi and Pilotti, 2002). This accumulated stock of tacit knowledge, and its relative ease of transfer throughout the district, maintains local competitive advantage where explicit knowledge and other inputs are traded and available globally to all firms. Being available to all, they are not therefore, sources of competitive advantage (Porter, 1994, Porter and Stern, 2001). Maskell and Malmberg (1999b), speak of the ‘ubiquiteness’ of inputs. In this light, it is the difficulty of transferring tacit information created in a particular place which gives the local its importance. Despite the globalisation of the factors of production, despite the digitalisation of (explicit) information, and the reduction of the cost of its transfer towards zero, despite information’s instantaneous transport across the world, distance is not dead and geography maintains or even increases its importance in the economy. Proximity, in all its forms plays an important role in the transmission (whether voluntary or involuntary) of knowledge between organizations and actors.

Difficulties in knowledge sharing and transmission can arrive from too great a cognitive proximity or overlap (I already know everything you know), or a too little proximity (I lack the fundamentals to understand what you are saying – at the extreme: two people talking different languages, Boschma, 2005b). ‘Information is useless if not new, but also useless if it is so new that it cannot be understood’ (Nooteboom, 2000, 153 in Boschma, 2005b). Firms in an industrial district may well correspond to this ‘distanced proximity’. The differentiation and specialisation of district firms corresponds to a combination of cognitive distance (from a variety of specialisations), and cognitive proximity (similar basic activities and technologies). Actors in industrial districts have similar training, similar professional experiences and social references. However, as each person has travelled his or her unique path, district actors communicate and learn from each other on

the basis of salient references and similar experiences (Pouder and St. John, 1996), while at the same time they have different points of view because of their personal histories.

Cognitive proximity in industrial districts could explain a) the existence of many firms in one area as entrepreneurs learn from local experiences and perceive market opportunities (Pouder and St. John, 1996), and 2) the diffusion of knowledge through the district, and 3) the evolution of the district in terms of adjusting to outside shocks and new innovations and knowledge.

1.3c Organizational Proximity.

Organizational proximity is defined as the links between actors, either inside the same firm or between similar actors in different organizations, e.g. accountants in different firms may have more in common with each other than with other co-workers in the same firm (Boschma, 2005b). The notion of organizational proximity reflects a continuum of relations between zero contacts and links between actors and strong, frequent and close links between members of the same hierarchy or network (Boschma, 2005b). Just as with our brief discussion of cognitive proximity and learning processes, one finds the similar idea of ‘distanced proximity’, where too strong a proximity (managerial fiat in hierarchy) limits creativity and innovative thinking. Authority alone cannot create the conditions of innovation: bureaucracies are not known for their capacity to innovate (Adler, 2001). A certain level of organizational proximity is necessary in order to limit uncertainty and opportunism. Control mechanisms are necessary in order to guarantee the property rights which stimulate innovation. At the other extreme, the transfer of information in the market (low or zero organizational proximity), poses the problem of asymmetric information between buyer and seller which makes the act of purchasing (the second hand ‘lemon’ car market as famously described by Akerlof, 1970) as perilous as the act of selling (once the information is transferred how does the seller know that the buyer will honour his word and vice versa?). Adler (2001) proposes that the solution to this question of knowledge transfer lies in the intermediary organizational form of the network, where the exchange is governed by trust, rather than authority or price as is the case in hierarchies or markets (Bradach and Eccles, 1989).

The utter impossibility of firms to transfer (tacit) knowledge does not, of course, stand up to empirical investigation. The communities of practice literature (Brown and Duguid, 1991, 2000, Thompson, 2005) underlines the possibility that routines and practices put into place by companies can promote the transmission of information in companies with geographically dispersed units (Gertler, 2003). In a case study of cooperation between Irish furniture-making firms, Heanue & Jacobson (2002), note that the geographic distance between the firms did not impede the exchange of information and the beginning of collective actions. Trust built up slowly between the firms partly because of the actors' organizational proximity and shared identities (Irish furniture makers, family owned independent firms), and partly because they did not consider themselves direct competitors as they were sufficiently far from one another geographically and served distinct markets and market segments.

Overcoming geographical distance in knowledge transfer within and between similar firms is not impossible, but one must not underestimate the difficulties. The well-known example of Xerox's research centre, the Palo Alto Research Centre or PARC, illustrates the fact that organizational proximity alone is not enough to ensure the transfer of information. Researchers in PARC, founded in the heart of the Silicon Valley in the 1970s, were responsible for several important innovations in the IT industry. Despite a strong organizational proximity (same company, same industry), the headquarters of Xerox on the east coast could not take advantage of these innovations which originated in 'peripheral' sites (PARC and the Fuji-Xerox alliance in Japan), because the researchers had developed their own distinctive cultures defined by local and national contexts. These local cultures and institutions represented a too high a barrier which impeded knowledge transfer inside the firm, despite the innovation's manifest technological superiority. Knowledge may be transferred in and between hierarchies, but that this process will require more time and more effort (Gertler, 2003).

Information, tacit and explicit, can be transferred within and between firms, but as with cognitive proximity discussed above, too much organizational proximity stifles knowledge creation and too little proves an insurmountable barrier (Boschma, 2005b).

From the discussion above one can conclude that the transfer of tacit information between agents (tacit information passes between agents not firms), depends on a fortuitous (?)

combination of proximities and distance. Trust acts as a mediator in the relationship, facilitating the transfer of information (Murphy, 2006).

1.3d Institutional Proximity: The Creation of Local Norms and Institutions

Institutions as a source of trust will be discussed in more detail below. Here I shall examine the development and implications of local institutions in networks.

‘Institutions are the humanly devised constraints that structure political, economic and social interaction. They consist of both informal constraints (sanctions, taboos, customs, traditions and codes of conduct) and formal rules (constitutions, laws, property rights).’ (North, 1991, 97).

It is interesting to compare North’s definition of institutions with that of Knight’s definition of a social institution, in particular in the light of trust being the expectation that another’s actions will not harm our interests;

‘social institutions are sets of rules that structure social interactions in particular ways. These rules provide 1) information about how people can be expected to act in particular situations, 2) can be recognized by those who are members of the relevant group as the rules to which others conform in these situations, and 3) structure the strategic choices of actors in such a way as to produce equilibrium outcomes’ (Knight, 1992, in Farrel and Knight, 1993, 549).

Knight’s definition is different to North’s in two crucial aspects with respect to trust. Not only do actors mutually align their expectations of future behaviour (thus reducing uncertainty and facilitating trust), but they also recognise who is a member of the group and who is likely to obey the rules. Both are crucial aspects in the creation of trust in industrial districts because local institutions and the alignment of expectations encourage trust and cooperation. For Brusco (1992, 182), local institutions are strong in districts as,

‘swindles and frauds are particularly rare...this... is the result of the fact that alongside state regulations, there is a second set of rules that derives from the

community to which all the companies belong. This set of rules, shared by everyone and to which everyone has to adapt, originates in civil society, and also carries a series of sanctions: whoever breaks the rules of the game is excluded from the community and can no longer work with it.'

I will return to the idea of community when discussing the economic advantages derived from exchanges in networked communities (Storper, 2005).

Brusco's quote above illustrates the normative and coercive forces inherent in local institutions (DiMaggio and Powell, 1983). When local and national institutions breakdown, agents are freed from the shackles that restrain opportunism (see Humphrey and Schmitz's 1998 comparative account of institutions in the former Soviet Union and clusters in Brazil and Pakistan). What Brusco ignores in his optimistic description is the question of numbers in the network. The smaller the number of participants, the more precisely the rules can be defined, (think of street gangs or the mafia which restrict membership) and the easier it is for members to see who respects or breaks the rules (Coleman, 1990).

On the other hand, in terms of innovation, a smaller, tighter network may entrench existing mental modes in such a way that new ideas are rejected by network members (Pouder and St. John, 1996).

In a similar fashion to 'distanced proximity' discussed above, the 'ideal' network should possess a limited number of members to ensure group cohesion and create and reinforce network institutions and at the same time be open enough to new members with new ideas in order to avoid closure and stagnation (Storper, 2005).

1.3e The Creation of Local Norms of Behaviour

Norms refer to the basic social agreements that all members of the transactional network (community) must share if the network is to function efficiently (Ouchi, 1980). Industrial districts, as dense, overlapping networks of predominately small family firms structure the socialisation process through several different mechanisms.

District actors are socialised through their families where several family members across generations often work in the predominant industry. Local specialised educational facilities, and lengthy apprenticeship periods in companies also ‘format’ local youths and immigrants to the district. Young entrepreneurs learn the rules at the hearth and the workshop.

‘it is in the family that young people learn production techniques. It is from the family that the young entrepreneur receives his setup capital’,
(Mistri, 2003, 154).

In this context of family firms reputation is of prime importance. It is developed through the adherence to local institutional rules and, as family firms are frequently passed onto to sons and occasionally daughters, the good reputation of the firm is a major resource passed on to the following generation (Mistri, 2003)

Norms and institutions are then reinforced by frequent local personal, social and business contacts, because smaller companies are more strongly embedded in a social context than large firms (Ouchi and Price, 1978). These institutions then become internalised. Managers’ mental modes tend towards uniformity as local firms become the predominant salient reference points (Pouder and St. John, 1996).

Institutionalising processes codify informal commitments made by individuals, which become, over time, established and taken for granted organizational structures and routines (Zaheer et al., 1998).

In relation to the antecedents of trust, and in learning trust in particular, Glanville and Paxton, (2007), investigate whether generalized trust (a belief in the benevolence of human nature in general), takes its sources in a personal, fixed disposition towards trust or distrust, or whether people extrapolate their trusting feelings towards others from their experiences in localised interactions. It would seem that trust is learnt from local, personal interactions rather than being an innate character trait. ‘Trust develops in local groups, such as family, neighbours, and voluntary associations’ (Glanville et al. 2007, 231). This has its importance in studying trust in industrial districts because the social capital school described in the following chapter (Putnam, 1993), affirms that when actors are socialised

into a district where ‘thick trust’ exists, trusting behaviour becomes the norm and opportunism becomes the exception to the rule.

1.3f District Identity

In industrial districts these institutions have become genuine behavioural models, dominated by the emergence of cooperative types of behaviour, itself based on trust (Mistri, 2003).

District identity is proposed as the missing link between the traditional macro-perspective (based on shared culture history and values) and a micro agent based perspective. Sammarra and Biggiero (2001) call on social identity theory to provide an agent based explanation of the development of local norms and institutions.

Social identification is the perception of oneness with, or belonging to a human aggregate, it is a combination of two distinct processes; self-enhancement, the idea that people need to see themselves in a positive light, and self-categorization, where people construct social categories in terms of prototypes. The prototype is often represented by exemplary members (Sammarra and Biggiero, 2001). Social identification is also motivated by the need to reduce uncertainty as to how to behave in given situations;

‘self-categorization reduces uncertainty by transforming self-conception and assimilating self to a prototype that describes perceptions, attitudes and behaviours’, (Hogg and Terry, 2000, 124).

Social identification then, is the process that can explain such social phenomena as collective behaviour and group norms (Sammarra and Biggiero, 2001). As discussed above, group norms are strongly reinforced through social and business networks, in a restricted geographic space. Social identification would partially explain the high levels of entrepreneurship in industrial districts: there are so many successful local examples to follow. If these local examples (highly visible because of geographical proximity), provide a material example, they also provide a moral example in that they have (as far as one can tell from their public reputation) played the game according to the ‘rules’, limiting direct competition with local ‘colleagues’ (i.e. competitors), cooperating when the community

(i.e. district) demands cooperation for the good of all, and generally playing the game as part of the (local, district) team.

Social identification would also explain why after many years of working in a particular industry, some people experience enormous difficulties in retraining for new jobs in new industries and why some regions take a generation or more to reverse declining fortunes after losing world or national leadership in predominant heavy industries.

Among the processes that give rise to 'hot spots' (i.e. protoform clusters or industrial districts where innovation is at the cutting edge), Pouder and St. John's (1996), model (figure 1.2.1) reproduced below, shows the importance of institutional processes and manager's mental modes³. These mental modes are, according to Pouder and St. John, somewhat similar and early successes promote the continued evolution of these worldviews. They are representative of managers' 'cognitive frameworks, which in turn establish the competitive rules of the game' (ibid. p. 2000).

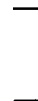


Figure 1.2.1 Forces Affecting the Evolution of Hot Spots (Pouder and St. John, 1996)

1.3g Social Institutions and Trust.

Knight's (1992) definition quoted above is of particular interest in our discussion of trust, because he places North's (1991) rather succinct definition in a social context. I will come back to an in-depth discussion of trust in Chapter 3, but first some comments about the importance of institutions and norms with regard to trust. Trust is a social reality; it cannot and does not exist without interactions and society (Lewis and Weigert, 1985).

³ Defined by Pouder and St. John (1996, 1200) as 'mental templates of organised knowledge about an environment that enables interpretation and action in that environment'.

Social institutions shape and frame actions, they provide information about the likely future behaviour of exchange (or social) partners. In this respect, they limit the gap actors must leap in order to trust others (Lewis and Weigert, 1985). Social institutions provide the contours of coherent groups which facilitate the coherence of communities over society, and the creation of 'homogenous transaction space', increasing the efficiency of production networks embedded in social networks, which is a central tenet of the industrial district model (Storper, 2005, Wood and Barr, 2005). The force and coherence of the industrial district model comes from this combination of *local* 'when agents can meet each other every day' (Rallet, 2002), and *social*, frequent interactions leading to the creation of local institutions and are reinforced over time (Pouder and St. John, 1996).

By constraining actions, institutions structure choices, thus facilitating cooperation and aligning expectations (Storper, 2005). In their empirical study of the Bologna packaging machine industry, Farrell and Knight, (2003), found that local actors referred to these local rules in terms of personal relationships and trust.

Brusco, (1992), underlines the embeddedness of economic exchanges in industrial districts. The particular local, social, institutions in industrial districts derive from the community to which all local companies belong, they limit fraud and opportunism, and reduce transaction costs. Therefore, 'social institutions generalise social expectations', (Farrell and Knight, 2003, 542). Informal institutions play a role in creating the necessary conditions for trust (Farrell and Knight, 2004). Mistri (2001) considers the informal institution of cooperative behaviour (based on trust) to be at the centre of industrial districts' competitive advantage.

Institutions directly affect incentives for action, which can in turn encourage trustworthiness (or discourage opportunism). The existence of sanctions which will punish transgressive behaviour, could be enough to dissuade an actor from undertaking opportunistic actions (Farrell and Knight, 2003), as long as the expected costs are outweighed by the benefits (Coleman, 1990).

I.3h Community versus Society

Local institutions facilitate the creation of tight groups of actors – a community – bonding together according to these common rules. There is no doubt that these groups are highly effective; coherent bonded groups are the basis of the sociological explanation of industrial districts. The question raised by Storper (2005) and Rodriguez-Pose and Storper (2006) is whether tightly bonded groups (communities or actors in industrial districts), adhering to their own rules and institutions are more beneficial to economic growth than societies where communities form bridges between groups, negotiate with others in a democratic process where no one group obtains power (and can thus appropriate rents⁴). This question echoes the traditional warning about trust. Although generally accepted as being a positive or morally desirable phenomenon, one should not lose sight of the fact that trust in bonded groups can produce negative consequences (Gambetta, 1998).

This is not the place to examine the old sociological question of deciding which is the more efficient; *gemeinschaft*, the traditional face to face community, tribe or clan, where everyone knows each other, exchanges are strongly embedded in the group's social structure and there exists an over-arching sense of group solidarity, or, on the other hand, *gesellschaft*, the modern rationalistic, impersonal society made up of self-centred, self-interested individuals trading at arm's length. Nonetheless, the persistence of industrial districts through time and over space demonstrates the consistent superior performance (or at least superior capacity for survival) of groups, clans and tribes in a modern capitalist society.

The relationship between shared norms and economic performance is represented in a large and flourishing literature. Ouchi, (1980), Ouchi and Price (1978), when referring to the works of Mayo, McGregor, and Likert, maintain that the development of internally cohesive groups leads to organizational success. While Ouchi's work was primarily concerned with the creation of group (or clan) values inside companies (corporate culture in fact), many of his insights can be transposed to the company network or industrial district level. For example, he refers to Japanese keiretsu, as the 'the most striking examples of industrial clans' (Ouchi and Price, 1978, 66). Ouchi, (1980) develops the

⁴ See 'It's Our Turn to Eat' by Michela Wong (2009) on the appropriation of power and income by rival tribal clans in modern day Kenya.

prerequisites for the creation of social norms; if the individuals in the clan (read district) are 'interdependent and have overlapping goals, then the conditions of reciprocity and equity can be met' (p131). Conditions which are met by business networks and, by extension industrial districts.

On a national level, Fukuyama (1995, 26), places shared norms at the centre of his theory concerning the necessity of trust as a prerequisite for prosperity: 'trust is the expectation that arises within a community of regular, honest and cooperative behaviour, based on commonly shared norms, on the part of other members of that community'.

The key question here for industrial districts is the point at which a dense network ossifies into a closed network and begins a process of stagnation where agents and companies, for example, ignore external ideas and trade only with existing network (club) members (Rodriguez-Pose and Storper, 2006, Pouder and Saint John, 1996, Uzzi, 1997). Witness the recent work by scholars examining knowledge flows at the boundaries of industrial districts and clusters and the importance of avoiding closure and stagnation, (Maskell, Bathelt and Malmberg, 2006, Bathelt, Malmberg and Maskell, 2004), and the creation of inter-cluster 'pipelines' of information linking similar clusters across the globe (Anderson and Lorenzen, 2007, Semlinger, 2008).

1.3i Norms, Institutions and the Creation of Social Capital

Social capital is defined as the resources that result from social relations (Bourdieu, 1986, in Lorenzen, 2005). It is credited with many positive aspects. Social capital increases an actor's power and influence, as well as increasing intra group solidarity, thus reducing monitoring costs. The motivation to create social capital (i.e. interact with others) is again, the norm of generalised reciprocity (Adler and Kwon, 2002). This generalised reciprocity transforms individuals, 'from egocentric agents with little sense of obligations to others...into members of a community with a commitment to the common good.' (Adler and Kwon, 2002, 26). In this respect, the social capital of entrepreneurs and actors in industrial districts contributes to the resources which are available to firms through and thanks to these social interactions, as Granovetter (1992) demonstrates in his discussion of Thomas Edison's manoeuvres to structure the early electrical generation and distribution industries in the 19th century United States.

Between these micro and macro levels, Putnam, (1993), develops the importance of norms, networks and trust in his study of social capital in Italian regions:

‘Voluntary cooperation is easier in a community that has inherited a substantial stock of social capital in the forms of norms of reciprocity and networks of civic engagement. Social capital here refers to features of social organizations such as trust, norms and networks that can improve the efficiency of society by facilitating coordinated action.’ (Putnam, 1993, 167).

Putnam lists four reasons why the norm of generalised reciprocity in industrial districts enhances cooperation;

- it increases the cost of defection
- it fosters robust norms of reciprocity
- it facilitates communication and improves information flow (notably for centrally placed network actors, Adler and Kwon, 2002)
- it embodies past successes at collaboration and provides a blueprint for the future cooperation (Putnam, 1993, 172),

Western firms wishing to penetrate the rather opaque Chinese market are confronted with the necessity of building social capital in a tight knit, closed and structured society. They are continually looking for contacts with people with *guanxi*, a concept usually translated as ‘contacts’ or ‘relations’, but the concept is also a synonym for one’s capacity to connect and to enter into relationships with others. Curiously enough, in the light of the above discussion of community and society, network openness and closure, the literal translation of *guanxi* is ‘closed system’ (Mudry, 2008).

Social capital facilitates companies in connecting and reconnecting and therefore in forming networks of production and innovation with the associated advantages outlined above (Lorenzen, 2005). From the sociological point of view, social capital, i.e. the outcome of the quality of local interpersonal links and relationships, is considered central to the success (and persistence) of industrial district type productive systems. The central

role of trust in social capital will be discussed below, but firstly I shall examine the role of social capital in regional and national economic development.

Putnam (1993) explains the differences in economic development of Italian regions by the existence (or not) of high levels of social capital. Regions with long histories of horizontal republican links between citizens in the centre and north east of Italy have experienced higher growth rates, lower unemployment and better government, etc., compared with southern Italian regions where social structure was based on hierarchical feudal relationships between lord and serf. In the centre and north-east, autonomous city councils and guilds were in place as local government in the late medieval period, whereas in the south, divide and rule strategies were decreed by autocratic, centralising monarchs such as Roger II (1095-1154) and Frederick II (1194-1250) in the kingdom of Naples and Sicily.

Social capital, according to Putnam exists in the ‘third Italy⁵’ today as a direct result of early medieval Italian traditions such as the existence of guilds (Verona in 1303, but based on an earlier statute), *vicinanze* or neighbourhood associations, *populus*, parish organizations that ran churches and elected priests, *consorterie*, tower associations for defence of the city, mutual aid associations, and *aiutarella*, the practice of work exchange among neighbours. For Putnam, these ‘horizontal bonds of fellowship’ (1993, 107), the bonds of collective reciprocity, solidarity and self-discipline, were, in the absence of a superior unifying political force (compared with the kingdom of Naples and Sicily in the south), the only alternative to anarchy in 12th and 13th century Italy. Violation of rules led to boycott and social ostracism. These practices persisted through the ages because of the relative small sizes of local communities. Transgression was visible and identifiable thus dissuading opportunism (Coleman, 1990), and in game theory terms, the actors had reached a stable positive equilibrium where no one player has an incentive to alter his or her behaviour.

1.3j Social Capital and Trust

Social capital’s relationship with trust in the literature is ambiguous to say the least. While some authors, notably Fukuyama (1995), equate trust with social capital (in which case

⁵ Regions such as Emilia-Romagna, Veneto and Toscana, where industrial districts are common, as opposed to the mezzo-giorno and the industrial north west Po river valley around Turin and Milan.

why use one term for the other?), others see it as a component of social capital, (Coleman, 1988), or a part of the 'goodwill that others afford us' (Adler and Kwon 2002, 18). Goodwill, which Adler and Kwon describe as 'the sympathy, trust and forgiveness offered us by friends and acquaintances'. Tsai and Ghoshal (1998) consider trust to be part of the relational dimension that builds social capital. As described above, Putnam (1993), considers trust and norms to be sources of social capital, while other authors suggest that trust is a product of social capital (Adler and Kwon, 2002, Storper, 2005), which is particularly useful in playing a cohesive role in the communities discussed above.

To go further in this discussion it is necessary to bring to bear in mind two concepts linked with, on the one hand social capital and on the other hand trust.

Firstly, Nahapiet and Ghoshal (1998), expanding Granovetter's research on social networks and economic activity, draw attention to three dimensions of social capital. Taking social capital as 'a set of resources rooted in relationships' (p243), structural embeddedness concerns the configuration of linkages in terms of density, connectivity and hierarchy. Relational embeddedness describes the personal relationships people have developed over time and finally, the cognitive dimension of social capital refers to the resources which provide shared meanings and representations. Trust, as a concept (as will be discussed more fully in Part II) is a measure of the quality of the relationship (Bachmann, 2003), and is part of, in as much as it can be an institutionalised norm, a shared world view by actors in a relationship. Therefore a discussion of trust and social capital concerns the relationships between actors, their history, and their institutional framework.

The second aspect of trust that is important to note, and in general is the cause of much confusion, is the fact that trust acts simultaneously as an antecedent, a mediator and a result of the exchange process. This temporal and dynamic aspect of trust makes disentangling the concept a complicated endeavour.

The feedback processes and information processing (trust proposed/trust denied), part of the reflexivity of building trust, contribute to a virtuous or vicious circle where trust is proposed and honoured (virtuous circle) or proposed (or not) and not honoured (vicious circle).

Trust builds trust. People learn to trust from personal experiences which they extrapolate to new situations (Glanville et al., 2007). If the majority of interactions requiring trust in a tight knit community (network) are honoured, then this honouring of trust demands reciprocity. 'The trust we receive contains an almost compulsory power, and to betray it requires thoroughly positive meanness' (Simmel, 1950, in Möllering, 2001, 407).

Taking trust to be the willingness 'to accept vulnerability based on the positive expectations of the intentions or behaviour of another', (Rousseau et al., 1998, 395), one can see that trust's relationship with social capital is linked to the level of certitude that an actor's social network will behave in accordance with his or her particular interests, in a particular context at a particular moment, and that the actor is confident that there is a high level of general reciprocity in his or her social network, thus permitting generalised trust beyond the immediate family circle (Fukuyama, 1995, Glanville et al., 2007), and 'serial equity' (Ring and Van de Ven 1994); the idea that backs will be mutually scratched over time in repeated exchanges. It is this trust that one's social network will behave according to accepted norms and institutions which forms one of the foundations of social capital. Trust is the starting point to the creation of social capital; it is a source of cooperation and efficiency in society at large (Fukuyama, 1995).

Summary to Part 3

Industrial districts are obviously more than simply a number of juxtaposed atomistic entities manufacturing and trading in related industries. Geographic proximity, defined as the possibility of having face to face contacts on a daily basis, interacts with other forms of proximity to create a resource that actors may or may not enact (Rallet, 2002).

One of these locally developed resources is trust. Proximity effects are assumed to play an important role in the creation of trust, but the relationship between the two remains an under-examined. Much of the district literature postulates that frequent contacts facilitate the development of interpersonal and inter-firm trust (Harrison, 1992, Torrès, 2003). Frequent contacts and exchanges in networks create 'mini-societies' based on specific locally developed norms and institutions (McNeil, 1980). These institutions (social

codebooks for Maskell and Lorenzen, 2004, mental modes for Pouder and St. John, 1996) structure actor' expectations and world views. When actors play the (local) game to the same (local) rules, the possibility of opportunism is severely reduced.

Storper (1993) acknowledges the necessity, in studying industrial districts, of moving away from a traditional structural and macro-analysis approach (such as Piore and Sabel, 1984), to a more behavioural approach based on inter-firm relations and the qualitative behaviours of agents in a network. Storper would wish to underline the necessity of examining the *quality* of inter agent relations. By quality here, I adhere to Bachmann's (2003) definition of exchanges where economics defines the structure of the exchange and trust defines the quality of the exchange. This is important in Storper's view because;

'the potential positive externalities of production networks, in the form of technological learning, innovation, and flexibility are only realized – or are differentially realised – according to the concrete qualities of the transacting that is carried out' (Storper, 1993, 435).

As Belussi and Pilotti (2002, 125) note:

'industrial districts can be interpreted as cognitive systems; a socio-productive system where knowledge, social experiences, mental modes, and collective beliefs are accumulated in a specific place through time'.

It is this particular, spontaneous interaction between the economic and the social which gives industrial districts their specificity. This 'institutional thickness' gives rise to 'solid' forms of locally produced trust (Amin and Thrift, 1994).

Chapter I, part 4

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Chapter I, part 4:

A Short Description of an Industrial District

Introduction

The objective of this section is to draw the contours of an ideo-typical industrial district and the place of trust and cooperation in its functioning.

Interest in industrial districts has dated from Alfred Marshall's initial work of 1890. Marshall, thanks to his investigation of the industrial configuration of small firms in Sheffield and Lancashire, proposed that the advantages of large-scale production could be attained through the agglomeration of many small firms just as through the production of a few large works. In doing so, Marshall defined an industrial district as a large number of small firms in one geographical area active in the same industry (Dei Ottati, 1991). Industrial districts then, offer a different production model from Fordist mass production (Piore and Sabel, 1984).

Krugman (1991) suggested that the analysis of industrial production must take into account both time and space as economic dimensions and industrial districts with their often deep rooted histories and proximities are prime examples.

The concept was ignored for many years as small firm industrial productive systems embedded in the local social system (i.e. industrial districts) were considered a throwback to more ancient economic times when economic activity was essentially local and clan or tribe based (Dei Ottati, 1991). These community-based systems were considered less efficient than 'modern' rational neo-classical large firm models (Storper, 2005). In face of the persistence of industrial districts in many countries with varying levels of GDP (Scott and Storper 2003), a considerable literature has developed as scholars attempt to understand the inner workings of industrial districts and have proposed specific economic development policies based on the advantages which accrue to firms thanks to the clustering of similar industries (Porter, 1990, Delgado, Porter and Stern, 2010). Small firm production networks, rather than being a throwback to the past, have been proposed as

models for industrial organization in the future (Piore and Sabel, 1984, Miles and Snow, 1986, 1992).

Interest was rekindled through the study of the industrial districts of the third Italy. Industrial districts seem to offer a different development model compared to the large industries prevalent in the '*triangolo industriale*' of Milan, Turin and Genoa, and contrasted the massive state-led failures to develop the south of Italy (Tappi, 2005, The Economist, 2009).

The literature takes two complementary approaches to the study of industrial districts (Staber and Morrison, 1999, Gordon and McCann, 2000). An economic approach focusing on the positive externalities available to companies; the benefits of networks in terms of flexibility and enhanced learning and reduced transaction costs stemming from proximities and trust in vertically disintegrated production networks, and a sociological approach based on the meeting of a community and a production technology. The communitarian model; the assumption of embedded firms trading in a local, path dependent context is discussed in section 4.b (Tappi, 2005). An embeddedness which, provides the institutional framework that creates and reinforces trust.

The remaining sections deal with important aspects of districts such as the delicate balance of competition and cooperation. Sections 4e to 4h deal with the debate and confusion which stem from the fact that clusters and districts exist in many different forms in many different economies throughout the world. This situation has led to scholars and public policy experts using different appellations to describe what is fundamentally the same phenomenon (Martin and Sunley, 2003). Finally I shall discuss two points which must be taken into consideration when examining trust in districts: the future evolution of districts in the face of increased competition in a globalised economy and the possible concentration of power into a few central 'leader' firms with the corresponding effects on close ties, and the possible erosion of trust as central firms exert their power over smaller firms.

1.4a Economic Explanations of Industrial Districts: Agglomeration and Positive Externalities

External economies or positive externalities are effects of agglomeration that are external to the firm but internal to district. The district being, as mentioned above, a geographically defined productive system made up of mainly small firms. Externalities are available to all firms in the district at little or no cost. Krugman (1991) introduced the idea of increasing returns to scale that accumulated to agglomerated firms as they took advantage these positive externalities. Yet these increased rewards are only exhibited over a limited spatial domain as these local advantages are eventually reduced to zero because of the increased costs of distance such as transport, communication and coordination costs (Gordon and McCann, 2000).

Alfred Marshall (1890, 1920) divided these positive externalities into three groups.

- The effects arising from a high level of firm specialisation. An effect later reprised by Porter, (1990a, 1998a, 1998b), who underlined the importance of world class specialised suppliers to district (cluster) firms.
- The effects arising from the availability of a highly specialised and experienced workforce. The facility with which skilled workers changed jobs and changed employment status (consultant, part-time and full-time employee, entrepreneur) in Silicon Valley is underlined in Saxenian's (1990) study of the success of the Valley and will be discussed below.
- The effects arising from the existence of specific infrastructure, research and training facilities, up to date information and communication, a theme developed in the region as a learning and innovation system literature (see Cooke, 2001, Maskell and Malmberg, 1999, Maskell, 2001, Malmberg and Maskell, 2002, 2006)

In his 'new economic geography', Krugman maintains that increasing returns are available to agglomerated firms. Positive externalities and increasing returns are necessary but not sufficient for competitiveness; collective action, i.e. cooperation, is also a central part of

the cluster's or district's competitiveness (Schmitz, 1999). The idea that cooperation, based on mutual trust, is central to industrial districts functioning will be examined below.

Marshall was primarily interested in an economic approach and only briefly mentioned the social network and institutional aspects of districts. He notably neglected interfirm interactions as a major driving force in districts. This theme was developed by the Italian neo-marshallian school (exemplified by the works of Becattini, Sforzi, Brusco, Bellandi, Dei Ottati and others) which focuses on the networks of firms as a subsystem of the local social system. This social network perspective firmly embeds economics in sociology. In particular, this approach focuses on the interactions which lie at the core of industrial district or cluster processes (Andersson et al., 2004). The understanding of this overlapping of economic and social (Mistri, 2003, Mistri and Solari, 2001), or the embeddedness of the economic in the social (Tappi, 2005, Granovetter, 1985, 1992, 2005), is central to understanding industrial districts because behaviour, institutions and community are closely intertwined. Exchanges are constrained by on-going social relations (Granovetter, 1985). Becattini (1992), provides an extensive re-reading of the Marshallian industrial district, where he associates Marshall's idea of 'industrial atmosphere' to what he calls the 'belong feeling', the tendency of people in the district to identify with the local productive system; an example of intra group bonding and identification (Storper, 2005). Over generations there develops a 'sense of belonging', a 'local consensus' and 'social compromise', (Paniccia, 1998).

With the aid of Paniccia (1998), and her comparative study of Italian districts and survey of the 'Italian school' literature from the late 1980's and early 1990's, I will attempt to draw a picture of the canonical Italian neo-marshallian industrial district and the place and importance of trust and cooperation. Firstly, I shall examine the central tenets of the industrial district as described in the literature, and then turn my attention to variations upon the theme.

1.4b A Communitarian Model

A community of people are bound together by similar values and views (behaviours, expectations etc.). These common values are then spread through the district and over generations by a system of institutions (schools, families, churches, professional

organizations etc.). This is the communitarian model of strong ties and intra-group bonding (Storper, 2005, Harrison, 1992). Geographic proximity aids the development of trust and reciprocity through frequent contacts, both planned and serendipitous. The long-standing tradition of cooperation (Putnam, 1993) is accepted as being crucial to the success of these areas and will be discussed in more detail below (Dei Ottati, 1994).

1.4c A Population of Essentially Small Firms

Industrial districts are ‘the spatial concentration of many SME’s in a bounded geographical area’, (Paniccia, 1998, 670). Each firm is specialised in a particular task. The district is presented as a model of extreme division of labour. Machines are highly productive and workers acquire a wide range of skills. Farrell and Knight (2003), note that in some Italian districts at least, it was a combination of economic, industrial and political factors that came together to keep firms small. In their study on the Bologna packing machine district, industrial unrest in the late 1960’s and restrictive labour practices encouraged firm owners to keep their firms small through extensive sub-contracting. These economic, political and social factors are, as mentioned above, intertwined and feedback loops make causal directions difficult to identify. To take Farrell and Knight’s example, the increase in sub-contracting may well have had its roots in political and labour confrontation in Italy in the 1960s and 1970s, but this strategy was facilitated by firm specialisation and a culture of interfirm cooperation. On the other hand, labour unrest and regulations may have oriented these strategic decisions in the absence of economies of scale. How many SME managers in France are reluctant to expand their companies to over 50 employees and ‘welcome’ union representatives into their midst? And how many SME owners could afford to stay small if important economies of scale exist in their industry?

A high level of firm specialisation creates the market conditions for (at certain periods of the districts’ evolution) high levels of firm creation (Feldman, Francis and Bercovitz, 2005). A ready pool of skilled workers, concentrations of specialised suppliers and a district’s reputation (or brand), means ‘wannabe’ entrepreneurs are attracted to the region, while strong socialisation factors discussed above stimulate local entrepreneurship (Porter, 1990a). Because industrial districts are (relatively) transparent community markets where information is readily available at low cost, would be entrepreneurs can perceive niches and opportunities in their respective markets more easily (Maskell and Lorenzen, 2004).

This specialisation limits direct competition between district firms. Entrepreneurs find themselves in fertile territory for many reasons, not the least because there exists a large market for intermediary goods and specialised, knowledgeable customers, (Porter, 1994, 1998a).

Start-ups could then prosper in a relatively low competitive environment. This in turn facilitates the transfer of tacit information and cooperation (different market niches and therefore fewer customers in common). Fellow entrepreneurs are seen as colleagues on the same (district) team rather than direct competitors. As firms concentrate on one production phase, investments are smaller and efforts are concentrated. Many local firms would have an interest in the start-up's survival as it provides either specialised inputs or a new market. Local firms may confer special rates to entrepreneurs, reproducing supplier/customer relationships from precedent employment. Clustered industries foster entrepreneurship because specialisation permits 'small entrepreneurial steps', therefore reducing risk for the entrepreneur (Schmitz and Nadvi, 1999).

This local market which combines exchange governance mechanisms that lie half-way between the market and the community, what Dei Ottati (1991) calls a 'community market' (see also Maskell and Lorenzen, 2004), may be difficult for outsiders to tap into until they have proved their trustworthiness.

1.4d Competition and Cooperation in Industrial Districts

Vertical and horizontal cooperation between competing and complementary firms is one of the central pillars of the industrial district model. 'The competitive advantage (of district firms) is derived from external economies and joint action', while 'clustering brings two advantages: those which fall into the producers lap and those that require joint efforts' (Schmitz and Nadvi, 1999, 1504-1505). Schmitz and Nadvi (1999), like many district scholars do not question the origins of this cooperation. Trusting attitudes that lead to cooperation are assumed to be part of the 'social fabric' and 'embedded ties' of districts (Semlinger, 2008). Few authors (with the notable exceptions of Paniccia, 1998 and Staber, 2007, 2009) question a) the existence of this trust and cooperation and b) or pause to analyse its origins.

Cooperation between firms in industrial districts facilitates a process of continuous change as it limits the risks that entrepreneurs take. Networks links are created, broken and re-created: each new configuration is an experiment in process innovation and the limited risks are shared among the firms in the district (Dei Ottati, 1991). Cooperation facilitates coordination along the value chain and evens out demand differential between firms, (Piore and Sabel, 1984). And finally, according to Dei Ottati, (1991), it helps lower production costs. Although in this last instance, I would say that Dei Ottati is confusing trust with cooperation (p56).

In any discussion of trust in industrial districts, it is necessary to distinguish between cooperation and trust, as the two concepts are often confused. A more detailed discussion of the two ideas is to be found in Part 2, but an explanatory paragraph is necessary here.

Trust is a precursor of cooperation. But all cooperation does not require trust. A manager may force two employees who do not trust each other to cooperate. Cooperation, in this instance, stems from the hierarchal vertical relationship and the authority of the manager, rather than from any horizontal bonds of trust. In our canonical industrial district, a large population of specialised firms resembles a heterarchy (Wolfe, 2005, Belussi and Sedita, 2005), where no one firm controls another (herein lies a major difference between industrial districts and say, Japanese Keiretsu or Korean Chaebol industrial groups). It is the absence of hierarchy and control, coupled with mutual interdependence (specialised firms cannot survive independently, uniquely, outside of the district 'ecosystem') which makes trust the governance mechanism of industrial districts. There is nothing else. The absence of trust and authority precludes cooperation.

'where sanctions and trust are missing, a production system requiring deepening specialisation and interdependence of formally independent firms is unlikely to develop', (Schmitz and Nadvi, 1999, 1506).

The contradiction between competition and cooperation is apparent in Porter, (1990a, 1994) who puts particular emphasis on the importance of local rivalry while Hamel, et al., (1989) suggest cooperation with suppliers and competitors as a central element of many firms' strategy. The question one must ask when considering cooperation in districts, is

what difference is there between two or more geographically proximate firms cooperating and any other type of cooperating firms and strategic alliances, licensing agreements etc.? Districts are community markets in specialised intermediary goods where competition and rivalry motivate agents to achieve higher performance. Despite intense local rivalry, Dei Ottati, (1991) maintains that, a long tradition of cooperation (cf. Putnam, 1993), ‘encourages people to try to find less expensive ways to produce their goods and services, and hence stimulates continuous change’ (p56). Dei Ottati, (in common with Schmitz and Nadvi, 1999, Hamel, Doz, and Prahalad, 1989), sees interfirm cooperation in industrial districts as a valuable resource for companies. This resource is considered path dependent in that it stems directly from the region’s history of mutual aid and horizontal links and its stock of social capital. This may hold for 3rd Italy industrial districts, it is after all the central thesis of Putnam’s work (1993), but the creation and development of industrial districts is surely too widespread a phenomenon to be purely path dependent and deterministic in such a manner. In the textile industry for example, one finds similarly structured districts or clusters in the same industry in countries with very different cultures and technological histories, such as the textile districts of Prato (Tuscany) and Faisalbad (Pakistan) (Schmitz and Nadvi, 1999). The counter example of Silicon Valley will be examined below.

Cooperation amongst firms in districts goes beyond formal, structured cooperation. Different types of collaborative ventures are numerous among firms in districts; firms will probably belong to local and national professional organizations (which is also part of group identification), participate in buying groups and collective research centres and so on. Few small and medium sized firms embark on formal research and development, individually or with chosen partners, not everyone chooses to club together to buy machinery or raw materials etc., but there is another aspect to cooperation that is rarely mentioned in the literature; the absence of direct competition. Although local rivalry⁶ exists, and is an essential part of Porter’s cluster diamond (1990a, 1998), it is my opinion that the corollary of extensive specialisation is a reduction of head to head competition. As firms occupy smaller and smaller market niches, they can *avoid* competition. It is easier to avoid competition when, thanks to one’s social and business networks, thanks to

⁶ Note however the distinction between rivalry (striving to outdo), and competition (a contest for a prize or advantage). Being a rival does not imply being in direct, frontal competition. One consultant prominent in cluster initiatives sums up district rivalry in northern Italy as ‘bosses wanting to have a bigger boat than the neighbour’.

geographic proximity and the ‘transparency’ of the district markets for intermediary goods, entrepreneurs can find and occupy smaller and smaller niches which are close to *de facto* monopolies or represent such small niches that the presence of another firm deters entry. This relative isolation from competitive pressure could be one of the factors behind high rates of entrepreneurship witnessed in certain periods in a districts growth. As start-ups can avoid (excessive) competition, they prosper and a positive signal is sent to perspective entrepreneurs as to their chances of survival. Not being in direct competition with local firms (on the totality of one’s product range), facilitates cooperation as fewer local firms are perceived as direct competitors. This cooperation is in fact simply a tacit non-aggression pact. In terms of inter-firm trust, it may be easier to trust non-competing or non-aggressive neighbours or neighbours perceived to be active in different markets and segments.

1.4e Variations on a Theme.

What then, is the canonical ‘italianate neo-marshallian’ industrial cluster which can be found in hundreds or thousands of variations⁷ across the globe (Enright and Ffowcs-Williams, 2000)? The model is composed of the following elements according to Belussi and Sedita, (2005, 4) and Becatinni et al., 2010;

- extended inter-firm division of labour with no asymmetries of power between clustered firms, (but in the absence of power, how to control partners?)
- equilibrium between cooperation and competition among rival firms
- social integration, (or embeddedness, business and social networks overlap)
- the existence of trust which facilitates cooperation, economises on transaction costs and fosters flexibility and innovation, (often quoted but rarely examined empirically)
- moderate or strong forms of learning (central to the survival of districts as firms learn from and copy neighbours, Malmberg, and Maskell, 1997, 2006, Maskell, and Malmberg, 1999a)

⁷ Paniccia, I., (1998), One, a Hundred, Thousands of Industrial Districts. Organizational Variety in Local Networks of Small and Medium Sized Enterprises, Organization Studies, Vol. 19, 667-669.

Paniccia (1998) details local (i.e. Italian) variations of the model and concludes that there are in fact relatively few ideal-type industrial districts in Italy. Local self-employment may be low in some districts, industry structure may differ between districts in the same field, and some districts manifest an absence of a community of people and still perform admirably on export markets (p.675). Paniccia has even found that some districts have not outperformed other local systems; they stagger from crisis to crisis and seem incapable of dealing with new internal and external circumstances, and that trust between companies, the glue and oil of district relations, tended to break down under external pressure. She notes cases of 'lock in' where networks become too static, refuse new members and new ideas and stagnate (Storper, 2005, Pouder and St. John, 1996). Even post-war local government policy towards districts differed between the Catholic (white) region of Veneto and the (red) communist culture of Tuscany and Emilia-Romagna (Whitford, 2001). Growth trajectories may vary widely across districts and industries, in particular, in light of the development and growth of a few firms that come to dominate some districts, therefore altering the distribution of power among the district firms (Schmitz and Nadvi, 1999).

Such was the productive model touted by Italian and other scholars, (notably Piore and Sabel, 1984) as an alternative model to large vertically integrated multinational firms and the Fordist mass production model. This view was criticised as being too idealistic and for generalising from specific contexts (Amin and Robins, 1991, in Marangoni and Solari, 2006, Perulli, 1990, Markusen, 1996). The communitarian philosophy has been attacked as being utopian, naïve and too path dependent while neglecting conflict between actors in the district (Marangoni and Solari, 2006). Silicon Valley has been cited as an example of a successful industrial district with no 'dense networks of civic engagement' and little or no history of horizontal cooperative bonds (Cohen and Fields, 1999, Kenney and von Burg, 1999). Conflicts and struggles for power exist in industrial districts, but what is worth noting is the capacity of actors to find (or not) collective responses to crisis situations (Barabel et al. 2007).

A lively debate has ensued about several points of the neo-marshallian district model. Could networks of small firms prove to be superior to large firms? What will be the future of industrial districts? What 'counts' as an industrial district, as opposed to pure agglomeration or a cluster (a question discussed below)? Should scholars be investigating

the strategic capabilities of firms in the district and their capacity to innovate, or the system of firms that is the district? This last question has clear public policy implications, the former point of view leads to a more *laissez faire* approach, while the later allows supply-side intervention from local, regional and national authorities (Whitford, 2001, Motoyama, 2008).

The Italian school as developed by Becattini, Putnam et al. stresses the importance of strong horizontal ties and path dependency where endogenous economic growth is a function of history and local institutions which constrain and structure economic behaviour. Dei Ottati, (1991), reflects this Italian tendency of putting the social before the economic, as she considers the existence of a long history of cooperation (even if it crystallised before the area's industrialisation) a necessary requisite to the existence of industrial districts.

1.4f An American Counter-Example? The Case of Silicon Valley.

What hope then for regions and countries with little history of cooperative behaviour, few local institutions, and even little history? Industrial districts can and do arise in situations where there is little history of horizontal bonds, places where 'nobody knows anyone's mother' as Cohen and Fields, (1999), put it. Silicon Valley in California is one such world famous example. Silicon Valley arguably became the world's foremost technology region in a period of rapid growth following the Second World War, and saw the creation and growth of major computer companies such as AMD, Hewlett Packard, Intel, Apple and more recently Yahoo! and Google. Silicon Valley gave us the semiconductor chip, the microprocessor, the personal computer and the Internet. It has since become a development model, and every town and region wants its own Silicon Glen, Silicon Vallée, etc.

Yet Silicon Valley is in many ways the antithesis of Putnam's (1993) Italian industrial district;

'there is no deep history, ...little structured community...with its spatially isolated and spread out residential pattern... and rampant individualism...Silicon Valley would be hard pressed to present the image of a close knit civil society... which is

(according to social capital theorists) the precondition for economic prosperity' (Cohen and Fields, 1999, 109).

If this is the case how did Silicon Valley become the reference as a high tech industrial district or cluster?

Saxenian (1990) discusses the development of the Valley semiconductor companies during the post-war period, concentrating on the Valley's response to the recession in the early 1980's and increasing Japanese competition. She notes several features which are very similar to the industrial district model outlined above.

Firstly, in the face of a rapidly changing technological environment leading to uncertainty as to future developments, the value chain began disintegrating, and semi-conductor firm start-ups began a wave of specialisation in the late 1960s and early 1970s. Start-ups (chip firm creation rates increased 16 fold in the thirty years from 1956, Saxenian, 1990) flourished as they found more and more specialised niches and used new flexible production techniques in order to cater to specific customers (as opposed to the large, established firms who made standard all-purpose chips and struggled against low cost Japanese competition). These small specialised firms created production networks through formal and informal vertical and horizontal partnerships with like-minded firms.

Secondly, even in a modern fast moving environment and a 'hi-tech' industry, Saxenian underlines the importance of face to face contacts, i.e., cognitive and physical proximity. 'Dense social networks and local institutions foster the recombination of experience, skill and technology into new enterprises' (Saxenian, 1990, 96). Staff mobility was high, partly because engineers considered themselves more 'loyal to their craft than to their company' (p. 97). Shades here of Becattini's loyalty to the district, and the beginnings of a coherent bonded community. More important than simply transferring and dispersing knowledge through the Valley, the high level of firm creation and staff mobility meant that individual career paths crossed and recrossed repeatedly, meaning that today's colleague might be tomorrow's competitor, boss or supplier; 'professional respect, loyalties, and friendships transcend this turmoil' (Saxenian, 1990, 97). In other words, even in one of the most advanced, modern and capitalistic economies in the world, economic exchanges became embedded in social networks, where a sense of community, a shared commitment to

advancing technology (rather than commitment to the city or to the region), transcended inter-firm rivalries. In the absence of deep historical roots, Silicon Valley is a state of mind, (Markoff, 2009). Social capital was built up through business networks and not civic networks as the Valley 'is notoriously a world of strangers', (Cohen and Fields, 1999, 109).

Thirdly, Saxenian compares the desire of the new firms to create partnerships with suppliers and customers and 'building up long-term, trust-based relationships', particularly with 'suppliers of technically complex and fast changing components' (p.103). This strategy was in marked contrast to established firm's practice of arms-length relationships. A high level of specialisation of the start-ups meant providing tailor-made solutions to clients. Bespoke manufacturing demands close relationships with the final customer compared to off the shelf, standardised, solutions which can be provided through arm-length exchanges. Frequent face to face meetings reduce information asymmetries and increase understanding of the other's point of view: 2 factors which lead to the creation of trust. A final point in Saxenian's analysis of the Valley bears emphasizing. Geographic proximity (between client and supplier) is necessary in order to transfer tacit knowledge and coordinate the design and manufacture of specific chips. Saxenian see it as a necessity in order to manage 'the continuous need to adapt jointly to unanticipated contingencies' (p104).

Disintegration of the value chain, firm specialisation, the development of a community spirit, close, long-term trust based vertical and horizontal relationships which depend on physical and cognitive proximity, all present in the Silicon Valley revival, are fundamental aspects of the industrial district model. The missing factor, a long history of cooperation, does not seem to have hindered the Valley.

Cohen and Field's (1999), thesis is that the industry defines and shapes social structures and norms, rather than the pre-existing society modifying social institutions in which it is embedded, and this would seem to be the case in the Valley. (There was no industrial community in California pre-1900). This would be an example of MacNeil's (1980) proposition of exchanges creating a 'micro-society'.

There may exist two different paths to group, community and institution creation; one, let us call it 'Italian', where history counts, traditional values persist, dominate, and structure

exchange behaviour, and a second, let us call it ‘industrial’, where the dominant industry shapes behaviour and norms. Both depend on physical proximity and frequent contacts to transfer tacit information and verify non-opportunistic behaviour. Districts seem to be governed by two relational dynamics. One is professional as seen in Silicon Valley, and the other being a historical, path dependent route as seen in Italy (Amisse, Leroux, and Muller, 2012).

Perhaps these two paths are not so dissimilar; both depend on the creation of a like-minded community and collaborative, trust based relationships which reduce transaction costs between highly specialised firms. Although Cohen and Fields would put the ‘interaction of economic and institutional actors in pursuit of explicitly competitive aims’, (p120), before dense networks of civic engagement as the driving force behind this success, they do underline the importance of a community of like-minded engineers, entrepreneurs, and of course venture capitalists who have had significant personal experience in the computer industry. Frederick Termine’s⁸ goal was, as Cohen and Fields note, to create a *community* of technical scholars.

1.4g A Cluster

It is not the subject of this thesis to produce an exhaustive list of the different models and typologies in the plethora of literature on spatial agglomeration or regional economic development⁹. My examples serve as an illustration of the confusion that reigns in the field and of the lack of coherent models and theories used to explain economic clustering (Markusen, 1999, Martin and Sunley, 2003) and continued efforts to analyse why some clusters succeed and others fail (see Kamath, Agrawal and Chase, 2012 for a discussion). I will turn my attention to the author who did much to popularise the concept of clustering as a strategic lens for companies and as a tool of economic development for regions and countries, in his 1990 book, *The Competitive Advantage of Nations* (Porter, 1990a).

⁸ Professor of electrical engineering at, and later Dean of, Stanford, who helped several of his students, among others, a certain Hewlett and a certain Packard, to finance their start-ups.

⁹ For this reason I will not discuss ‘les clusters à la française’: Les Pôles de Compétitivité, considering them to be regional development initiatives (sometimes based on existing industrial districts or other clusters), promoting cooperative research and development projects between SME’s and larger firms in a given territory.

A cluster is defined in the Concise Oxford Dictionary as – ‘a group of similar things growing together’. This definition implies either a spatial proximity or a functional similarity, an ambiguity which goes to the heart of Porter’s cluster concept of a cluster being a:

‘geographic concentration of interconnected companies, specialised suppliers, service providers, firms in related industries, and associated institutions (for example, universities, standards agencies, and trade associations) in particular fields that compete but also cooperate. (Porter, 1998a, 3).

Figure 1. The Sources of Locational Competitive Advantage (Porter, 1990a, 1998)

Porter’s (1990) diamond model is well known and is reproduced above (figure 1). In a large scale study of the sources of competitiveness of initially ten countries, Porter (1990), found that the economies of cities, regions and countries were typified by specialisation. Leading international competitors were usually based in a few countries and sometimes just one. Industry leaders were frequently ‘clustered’ around one particular region or city,

as in the Silicon Valley case discussed above. A cluster is a manifestation or local concentration of the diamond in figure 1.

In a world of globalisation, where all firms can access inputs on the world market, ‘enduring competitive advantages...lie increasingly in local things – knowledge, relationships, motivation’ (Porter, 1998b, 78).

Porter never defines the geographical limits of a cluster. He mentions ‘regional clusters’, such as the Californian wine cluster, but also talks of ‘national clusters’ such as the Italian fashion and shoe clusters. Porter considers the tracing of the boundaries of a cluster to be a ‘creative process’, and more a question of degrees. It is more important for Porter, to examine the links and complementarities among industries and institutions, than to define precisely the number of square kilometres a cluster may occupy (Belussi and Sedita, 2005). The concept becomes even more ‘de-spatialised’ in the light of the following quotes: ‘A cluster’s boundaries are defined by the linkages and complementarities across industries and institutions that are most important to competition’ (Porter, 1998b, 79) and ‘the geographic scope of a cluster can range from a single city or state to a country or even a network of neighbouring countries’ (ibid, 199). To resume, a cluster is a ‘geographically proximate group of companies’...spread out over neighbouring countries? Why bother with the notion of geographic proximity if one includes firms from say, Auckland to Zanzibar in our cluster?

Taking a systemic approach, Porter, (1998a), defines several clusters (for example the Swedish and Portuguese wood clusters, p24) and underlines the linkages between parts of the system, indicating which industries in the cluster are ‘world class’ and which are not. Obviously, direct policy implications result, as Porter (1994) maintains that the most pertinent policies should be undertaken at a regional (i.e. cluster) level and not the national level; ‘the relevant economic area is smaller than many nations’ (p.38), (exceptions are made for small countries which may be considered as regions).

From a description of industry and country competitiveness, Porter’s approach rapidly became standard regional development policy around the world (see Ahedo, 2004, for an interesting account of the implementation of cluster policies in the Spanish Basque country). Cluster policies have not always met with success. Bayliss (2007) details the city

of Dublin's attempts and failure to develop a high tech computer industry and notes that most studies of clusters have tended to describe a cluster at a particular point in time and thus miss the dynamics and path dependent processes that have led to its success. McDonald, Tsagdis and Huang (2006), report that in a study of 43 European clusters, 'most government policies have had no significant impact on the growth of industrial cluster or for the development of co-operation within industrial clusters' (p525).

Bayliss (2007) quotes Rosenfield (1997), for the possible reasons that a particular cluster initiative (i.e. an engineered cluster rather than a naturally occurring one) could fail. Among his reasons are, the lack of political will, a weak technological base, *and limited networking and cooperation between actors*, and the absence of a critical mass of firms (our italics). Porter, (1990a, 1994, 1998a) speaks frequently of the necessity to have a 'critical mass of firms' without defining how many firms this might signify.

Porter's so called cluster theory has been criticized frequently on the grounds that firstly, it is a descriptive and static analysis of agglomeration that ignores local development paths, and secondly, the interconnectivity between central, related and support industries is difficult to measure empirically (exchange of goods or exchange of ideas and/or tacit knowledge?), (Motoyama, 2008). Porter is also criticised for appropriating as his own existing ideas such as social network theory, innovative milieu, innovation literature and learning regions for example (Motoyama, 2008). What seems to rile certain academics is the fact that Porter, a past master at marketing ideas and self, 'sold' his cluster 'theory' for considerable sums of money to national and regional governments around the world during the 1990's (see Martin and Sunley, 2003, for a lesson in academic jealousy). Ahedo (2004), gives an excellent description of the adoption of Porterian cluster policies in the Basque country, but does he have to mention the precise amount paid to Porter for his consulting fees, (not once, but twice)?

Motoyama, (2008), explains the success of Porter's theory, less because of any internal coherence, and more because Porter provides an easy explanation, a clear (policy) direction and a convincing political direction (maintaining company and regional competitiveness in a globalised economy).

In the twenty years since the publication of *The Competitive Advantage of Nations*, there has been increasing confusion about what exactly a cluster is, how to identify them, how to develop them etc. Gordon and McCann (2000), and Martin and Sunley, (2003) note that there is increasing tendency to use phrases such as ‘clusters’, ‘industrial districts’, ‘agglomeration’, ‘new industrial areas’ etc. interchangeably. Markusen, (1999) regrets the lack of analytical clarity in the use of such terms. Several authors (list non-exhaustive) such as Kenny and von Burg, (1999), Gordon and McCann (2000) and McDonald, Tsagdis and Huang, (2006), use a hybrid term ‘industrial clusters’ without defining precisely their research object. Maskell and Kebir (2005) fear that the term ‘cluster’ may have ‘gone directly from obscurity to meaninglessness without any intervening period of coherence’ (p2). In France the word ‘cluster’ seems to have come to signify a regional policy initiative rather than a concentration of linked firms (Barabel et al., 2007).

It is interesting to note the many similarities between clusters and industrial districts via some quotes from Porter’s paper in the *Harvard Business Review* (1998b). On increasing returns due to positive externalities; ‘A cluster allows each member to benefit as if it had greater scale or as if it had joined with others without sacrificing its flexibility’(p81). On personal relationships and community; ‘community ties foster trust and facilitate the flow of information’ (p81). On personal, trust based networks; ‘tapping into the competitively valuable assets within a cluster requires relationships and ‘insider’ status’ (p88). Each of these quotes could apply equally to industrial districts and underline the importance given to trust-based relationships.

After our definition of a canonical industrial district above I will quote Belussi and Sedita’s (2005) who regard the term cluster as a very general class of phenomena and the term district as a more specific sub-set. A cluster for Belussi and Sedita (p5);

- is not spatially defined,
- does not have a minimum threshold of agglomeration (three firms a district does not make),
- does not have a history based identity
- does not have a strong relationship with the local community, and
- does not have a strong local evolutionary pattern of growth

The term industrial district is used more to define agglomerated firms with deep roots in local culture (Becattini, 2002), and is now used to emphasize the values and norms shared by collocated firms (Maskell and Kebir, 2005). I would consider an industrial district to be a more accomplished and complete form of agglomeration than a cluster. It is not, however, the difference that interests us, but rather the common threads of trust and cooperation that weave their way through the different models.

1.4h Differences between Industrial Districts and Clusters

Whitford (2001), warns us against over-reliance on ‘the model of the month’ (p. 55). Just as there is more than one type of capitalism in the world, there is more than one type of decentralised capitalism and more than one type of economic agglomeration. As one would expect, as Paniccia’s (1998) much quoted review stresses the multiple forms that industrial districts may take, then there is much confusion and diversity in scholars’ attempts to create typologies of agglomerations of economic activity (Martin and Sunley, 2003).

If Paniccia (1998) found many different variations on the theme of the Italian industrial district, then it is no surprise to see that various authors have proposed many different typologies of industrial and service agglomerations.

Taking a structuralist approach, Markusen (1996), asks the question of why economic activity ‘sticks’ in certain regions. She delineates four ‘New Industrial District Types’; the traditional Marshallian district, its Italianate variant, hub and spoke districts and satellite industrial platforms. I have already discussed in detail the marshallian district and its Italian variant, and I would add that the differences between the two are rather limited. Essentially, for Markusen the Italianate district includes stronger links to outside firms, strong local government and trade associations and cooperation among competitor firms when compared to the Marshallian district.

These additions seem rather marginal. It would be surprising if firms in Marshall’s original districts in northern England (‘workshop to the world’) did not export their products beyond Yorkshire and Lancashire. Civic duties and public service were widely esteemed during the Victorian period of rapid industrialisation. Businessmen participated actively in town councils, trade associations and guilds. The only difference between the two variants

is the existence of horizontal cooperation so important to the Italian model (Schmitz and Nadvi, 1999).

Markusen's two other categories, hub and spoke, satellite industrial platforms do exhibit characteristics that differentiate them from the ideal type industrial district. The hub and spoke district is a localised strategic network built around one central focal firm, as discussed above (Jarillo, 1988, 1993), and epitomised by Toyota city in Japan (Dyer and Singh, 1998). The satellite district is an agglomeration of branch or subsidiary production units (as in certain areas of China), possessing relatively low autonomy (investment and design decisions are made elsewhere), and few links with other units in the area compared to tight links with external parent firms.

Gordon and McCann (2000), using a process approach, argue that there are three ideal-typical models, a model of pure agglomeration, the industrial complex model and the social network model. In fact these three models correspond respectively to Markusen's, Marshallian district, and the hub and spoke district and the Italianate version. Gordon and McCann ignore the industrial satellite version, possibly because it does not exist in their case study example of the London region?

If Markusen (1996), and Gordon et al. (2000), attempt to describe possible types of agglomerations, Pickernell, Rowe, Christie, and Brooksbank (2007), in a paper aimed at analysing agglomerations in order to aid policy makers to tailor their policies to specific local contingencies and building on Markusen's and Gordon et al.'s work, simply add to the confusion by proposing 8 possible typologies. They list the industrial complex, the hub and spoke district, the Marshallian district and its Italianate variant, the urban hierarchy, relationship based social networks, relationship based virtual networks and the satellite industrial platform.

Taking a resourced based view and without reference to either Markusen or Gordon et al.'s work, St. John and Poudar (2006) propose two generic forms of clusters which accumulate resources over time in different manners ; technology clusters and industry clusters, which as their names suggest are based, on the one hand, on a cross-cutting technology and driven by start-ups and spin-offs, and on the other a detailed deep regional knowledge of

one particular industry, which would seem to be the case of the Arve Valley district, which exhibits a deep accumulated knowledge of metal-working and bar-turning.

In France, the *systèmes productifs localisés (SPL)*, bear more than a passing resemblance to clusters and industrial districts. A SPL is characterised by the proximity of several production units in a given, defined territory (Courlet, 2002). Courlet identifies four central factors of SPLs which will remind the attentive reader of the central tenets of industrial districts; the presence of positive externalities, the existence of non-transferable tacit knowledge, a strong local identity and the existence of specific forms of regulation which dictate the system's evolutionary trajectory. Where Courlet's definition of a SPL differs from a canonical district is his acceptance of the presence of a large company in the territory that may or may not dominate the local SMEs.

Courlet (2002), goes some way to explaining this profusion of models, noting that a SPL (or district or cluster) does not represent a real concept as such because it is subject to, like the firm itself, several, sometimes conflicting, interpretations. Pickerell et al. (2007), identify the need for theory building in this area (see Maskell and Kebir, 2005 for a discussion). Their paper illustrates the disparate theories used to examine clusters as they use the following theoretical lenses in their analysis;

'Porter's cluster theory, modern innovation theory, organizational theory, learning regions literature, knowledge management literature, and innovation literature', (p340). There are not many theories or literatures that these authors have neglected in their list, except perhaps social network theory.

I would agree with Andersson et al. (2004) that the particular dynamics, externalities and competitive advantages that firms can draw from their presence in industrial districts, are based on interactions, interconnections and relationships at a local level. These interactions (see Porter's 1998a definition below) depend on the quality of the relationship and trust is a defining element of the quality of an interfirm relationship (Bachmann, 1998).

1.4i On the Evolution of Industrial Districts

Italian and developed country districts faced several challenges in the 1990's such as increased competition from low wage countries, and particularly low wage country

districts which managed to improve quality, such as the Sinos valley shoe producers in Brazil (Schmitz, 1999). Large firms have made considerable gains in productivity and flexibility through lean production techniques which enable them to rival the flexibility of district networks, not least because they have created their own strategic networks of suppliers as discussed above (Whitford, 2001). To overcome small firms' weaknesses in marketing and brand building, district firms have turned to intermediaries, a strategy which weakens the firms' bargaining power, and finally, the adequacy of local and collective government is being challenged (Whitford, 2001), although Dei Ottati (2002), downplays the spontaneous processes that give rise to industrial districts and stresses the importance of formal and informal collective action and of the role of local government as an honest broker.

Whitford takes the central debate on the future of the Italian model to be the conflict between the viability of a (purely) heterarchical group of companies; whether values and informal norms that were sufficient in the past are capable of helping the system to confront present and future problems, or whether the 'headless beast' needs to be restructured around central focal firms who would provide links and access to global markets and knowledge. A debate one can see in Barabel et al.'s (2007) analysis of the Arve Valley district, where several flagship firms have evolved to become 'core organizations'. The district would evolve ultimately, according to this point of view, into a strategic network where focal firms organise entire value chains *à la* Toyota or Benetton (Jarillo, 1988, 1993), with serious consequences for the smaller firms independence and, in the extreme, their very survival, because in a centralised strategic network, external shocks are borne disproportionately by the lower order firms (de Propriis, 2001).

Many authors have examined the evolution of various industrial districts. Enright and Ffowcs-Williams, (2000), describe the different trajectories between concentration and disintegration. The chemical and pharmaceutical industries of the Rhine valley have consolidated over time, for example. In Italy, one firm, Mandelli, absorbed much of the factory automation cluster around Piacenza during the 1990's. The Prato textile district in Tuscany which was dominated by a few firms in the middle of last century has, on the other hand, fragmented into many small firms. Farrell and Knight, (2003) detail the rise of consortia (or loosely held family industrial *gruppi*, similar to Chaebol or Keiretsu

organizations) in the Bologna packing machine district and its implication of the distribution of power and rent distribution.

There would seem to be clearly two diametrically opposed forces at work in the structuration of industrial districts: centripetal forces which cause fragmented value chains to co-locate geographically and centrifugal forces which consolidate value chains and allow companies to locate specific parts of value chains across the globe. I will leave the final word to Becattini (2002) who frames the question of the evolution of industrial districts in terms of contextual (i.e. tacit) and codified knowledge. As any production process involves a mixture of codified and contextual knowledge, and every new unit of capital or new routine injects different proportions of the two types of knowledge into the production formula, evolutions in capital and technology may shift a production process from a high context situation (i.e. one that requires frequent face to face contact between proximate parties – whether they be in the same or different organizations) to a low one, therefore allowing activities to be relocated and leading to disintegrating value chains.

“The relevant increase in a given type of codified knowledge, pulls, so to speak, towards sectoral classifications... (independent of space and social context)...or of contextual (tacit) knowledge, which pulls towards geographical ones¹⁰” (Becattini, 2002, 487).

A major threat to districts in the future is the increasing importance of science-based knowledge (i.e., explicit knowledge) which will undermine the relevance of tacit knowledge (Becattini et al., 2010). Whichever force is at work, or whichever combination of tacit and explicit knowledge is present at a given moment, knowledge, its creation and diffusion, lies at the heart of economic geography (Maskell and Malmberg, 2007).

¹⁰ Becattini is making reference here to the propensity of district actors to identify with their district rather than their industry (cf. Cohen and Field's, 1999, assertion that the actors in silicon Valley identify themselves with their industry).

1.4j Concentration, Power and Trust

The possible concentration of companies and the corresponding change in power distribution in districts is important in our investigation of inter-organizational trust in districts because trust, in many ways, replaces control and power (Farrell and Knight, 2003). If one cannot control the actions of one's partner then one is vulnerable to that partners behaving opportunistically and one needs (or is obliged) to trust (Nooteboom, 2007). The concentration of power in fewer hands, whether through buyouts, increased market power, or changes in technology, alters local relationships and diminishes mutual interdependence. As some companies grow to dominate the district, it loses its economic meaning or relevance because of the loss of trust based cooperative behaviour between equal actors at the local level. This point of view implicitly underlines the importance of the distribution of power across firms in the district, (Boschma and Lambooy, 2002).

Boschma et al. imply that an even distribution of power lies at the heart of one of the districts central institutions; the 'community market' as described above. The community market is obviously not a hierarchy; it takes the form of many overlapping networks and is governed by social norms, such as reciprocity, reputation and trust. Increased power in fewer and fewer hands replaces trust with authority on the continuum between market and hierarchy (Bradach and Eccles, 1989).

Summary of part 4

It is possible to analyse industrial districts from two conflicting points of view. From an economic perspective, firms benefit from the positive externalities of agglomeration and look to maximise profits from 'competitive interdependence' by balancing competitive motives with resource dependency. As noted above, high levels of firm specialisation are crucial to diminishing competitive pressure (competition still exists, but not necessarily over the entire output of each firm) and rivalry is not the same as competition (Staber and Morrison, 1999).

Firms select governance mechanisms which will reduce transaction costs. The reduction of transaction costs in such a production system is a necessary counterweight to the fragmentation of the value chain. Otherwise an increase in inter-firm exchanges (compared with a vertically integrated firm) would cause transaction costs to rise beyond the cost of producing the same goods in a vertically integrated firm. The answer to this conundrum is the adoption of trust as the predominant exchange governance mechanism in the overlapping business networks in industrial networks (Harrison, 1992, Uzzi, 1997, Bradach and Eccles, 1989). This trust is itself firmly rooted in the local community. As trust cannot exist without interactions, it is produced socially (Lewis and Weigert, 1985). It seems to matter little whether the institutions created by the community are a function of several hundred years of dense local tradition and exchanges, as in the neo-marshallian Italian districts, or whether the 'rules of the game' are developed over a shorter time-span through essentially economic exchanges as in Silicon Valley. The institutions which come to rise and which aid the creation and maintenance of mutual trust facilitate the exchanges of goods and ease the transfer of tacit knowledge.

The social-institutional approach to clusters and districts is based more on this sense of belonging, of an 'us' and a 'them' (Staber and Morrison, 1999). There has developed a strong sense of collective identity as a community of firms create the rules of behaviour which are reinforced through the eventual sanction of transgressors¹¹.

¹¹ Lorenzen (2002) quotes the interesting example of the existence of sanctions in a group of furniture manufacturers in Western Denmark. The President of the association maintained that a company which broke certain unwritten rules would be banned from future cooperative ventures and would have trouble finding

Institutions, both formal and informal, constrain opportunistic behaviour (North, 1990). The relative transparency of the community markets and group socialisation processes permit the free flow of important information as to, respectively, what the rules are, and who 'plays the game' according to those rules. Rules are interiorised through social institutions such as family, schools, training institutions etc. and the lengthy apprenticeships necessary to assimilate the tacit knowledge built up in the district over time. Reputation is important because it gives access to important network resources. Reputations are passed down through generations as many firms are small family affairs. A collective identity, specialised firms, similar goals and local rivalry facilitate the mixture of competition and cooperation. One trusts one's partners because they are the same as you and play to the same rules.

The quality of inter-firm relations is a recurrent theme in spatial agglomeration literature. Cluster and district dynamics go beyond simple external economies. It is the nature and effectiveness of relationships among local actors which determines the flows of information and the nature of interfirm exchanges in districts (Porter, 1994).

The two approaches to understanding districts, economic and social, have one aspect in common; both rely on the existence of 'thick' trust as a governance mechanism. Cooperation, social capital, lower transaction costs and increased transfers of tacit knowledge are the functional consequences which follow the state of (positive) expectation that is trust (Möllering, 2001). If economics structures the exchanges, then trust defines the quality of those exchanges (Bachmann, 2003).

partners. He could not however think of an example of such ostracism. Perhaps the (virtual) existence of the sanction was enough to dissuade firms from undertaking opportunistic behaviour.

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Chapter II: What is Trust?

Introduction

Trust is such a slippery concept to apprehend that even experienced scholars who have studied trust over many years may find it ‘incredibly easy to become hogtied in the ball of yarn (they) were attempting to unravel’ (Lewicki et al., 2006, 993). In the following chapter I shall attempt to clarify a number of key concepts before examining trust in inter-firm relationships in industrial districts in closer detail in Chapter 3.

Despite a voluminous literature on trust in general and trust in management studies and organizational behaviour an initial *tour d’horizon* is necessary because although there is a large consensus as to the importance of trust in society and inter-organizational relationships, there are several aspects of trust which are still subject to debate, such as, for example, a concise definition and different levels of analysis are frequently mixed up with a resulting heterogeneity of approaches (Simon, 2007, Li 2012). The industrial district literature is a prime example of this confusion of concepts and profusion of models (see Chapter 3 for a detailed review of trust in the district literature). Indeed Li (2012) points out that trust studies lack a general theory or platform.

Part II is divided into 5 parts. I shall begin by examining different aspects of trust such as the importance and nature of trust before settling on a concise definition of the concept. Then I shall proceed to examine questions of level and object of trust before moving onto the heart of analysis: the sources and antecedents of trust which are rarely examined in detail (Quéré, 2001). A frequently used typology regroups three central mechanisms: reason (or rationality), routine (institutions and ‘normality’ in a broad sense) and reflexivity (process-based trust), (Lane, 1998, Möllering, 2006a). Reason, routine and reflexivity provide explanations about how an agent comes to a point where they decide to trust or not. The decision to trust includes some element of calculation (reason). It also includes a belief that ‘this is how we do things’, i.e., it is normal to trust people; people in our family, in our clan, or people like us (because I’m honest), or doctors (who play the role that one expects of them). In other words one trusts because the ‘rules’ (internalised institutions, North 1990 or conventions, Gomez, 1997:2006) dictate that one should trust. It is morally wrong not to honour trust, to honour one’s word, to play by the rules, etc., but

this morality may be subjectively applied to, for example, family and friends rather than business colleagues and partners (Fukuyama, 1995). People also learn to trust others in a reflexive game of multiple exchanges where rules are invented and clarified as we go along (Ring and Van de Ven, 1994). People learn about a partner's trustworthiness and their willingness to play by the rules (if they know them).

I shall examine the proposition that all three foundations of trust exist in industrial districts and that actors in industrial districts are uniquely placed to benefit from all three mechanisms.

In part 2 I shall examine trust as reason: the role of information, logic and 'calculativeness' in the decision to trust. Having exposed why trust cannot be reduced uniquely to calculations, I shall proceed in part 3 to examine the institutional foundations of trust. But in the same way that reason cannot solely explain trust, institutions, conventions and routine cannot entirely reduce social uncertainty to a point where trust has no meaning. In part 4, I shall examine the common sense proposition that trust is built up over time through an interactive game of repeated exchanges. But again, despite solid empirical foundations, trust as reciprocity cannot, like reason and routine, explain trust and particularly cannot explain the first step, the leap of faith, that is trust, and I shall discuss the concept of suspension ('the leap of faith') in part 5.

Chapter II Part 1 Trust: A Multidimensional Concept

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Introduction to Part 1

Trust: Fundamental Aspects

This section will examine different aspects of trust in order to clearly define this rather slippery concept; such as the importance of trust, the nature of trust, its relationship with opportunism, cooperation and uncertainty. I shall look at whether trust is a natural disposition or learned through social experiences (Lewis and Weigert, 1985). Then I shall discuss the different analytical levels of trust and then move onto a discussion of the three dimensions or antecedents of trust as proposed by Lane, (1998), and Möllering (2006). Finally, I shall look at ‘trust as a leap of faith’, (one of the sentences that first pushed me to study trust in detail). But firstly, the importance of trust.

II.1a: The Importance of Trust

People seem to take trust for granted (Kramer, 2009) and we only notice it in its absence, as one can see from the sub-primes crisis which obliterated trust in the banking system in the autumn of 2008. Certainly, general trust in a large range of actors and institutions and in particular US management has shrunk drastically recently if one were to believe the results of a Harvard Business Review Advisory Council Survey reproduced below (figure 2.1).

The causal effect between trust and economic growth has yet to be empirically proven. Cook, Clifton, and Oleaga, (2005), found little link between social capital, trust and regional growth while Putnam, (1993) argued the opposite, maintaining that regional economic differences in Italy are directly related to levels of social capital and trust, while Knack and Keefer (1997), found a positive relation between interpersonal trust and economic growth. Many social scientists such as Fukuyama (1995, 7), claim that ‘a nation’s ability to compete is conditioned by a single, persuasive cultural characteristic: the level of trust inherent in a society’. Fukuyama makes a strong case that trust is the missing ingredient necessary for economic growth in many underdeveloped societies (see Mahmoud, 2008, for a discussion of trust in livestock trading in northern Kenya, or Humphrey and Schmitz’s, 1998, paper on the lack of trust hampering economic growth in the former communist states), but Fukuyama fails to explain why some ‘low trust’

countries (France and South Korea for example) are amongst the richest economies in the world.

Figure 2.1, Eroding Trust after the 2008/2009 Financial Crisis (Source: Harvard Business Review, June 2009).

One can note a marked increase in the interest in trust studies over the last two decades. Trust (and related concepts such as cooperation) in intra- and inter-organizational contexts has been the subject of many special issues in academic journals (Academy of Management Review, 1998, Organizational Studies, 2001, Réseaux, 2000, Organization Science, 2003, Revue Française de Gestion, 2007, Journal of Management Psychology, 2004, to name but a few) and collections of edited volumes such as, Gambetta, 1998, Lane and Bachmann, 1998, Kramer, 2006, Bachmann and Zaheer, 2006, among others. Li (2011) details the explosion of special issues, from 2 during the decade 1990-99, to 5 between 2000 and 2005, to 21 during the three years from 2006 to 2009.

In their introduction to the special issue on trust in Organization Science, McEvily, Perrone and Zaheer (2003a), consider why trust has become such an important concept in organization studies. Firstly, trust studies are a response to neo-classical economic theories that postulate overly atomised individuals and strip organizations and therefore inter-

organization relations of their inherent social aspect (Granovetter, 1985). Trust in this sense becomes a means for sociologists to counter the hegemony of neo-classical economics by re-embedding the economic in the social (Harrison, 1992). Industrial districts and the related proximity literature are part of this research agenda which looks to subordinate the economic to the social. Secondly, interest in trust also stems from the idea that firms need to maintain 'civilised' relationships with other firms to attain their goals and may even derive distinct strategic advantages through cooperation, rather than through direct competition, with other organizations (Hamel et al., 1989, Barney and Hansen, 1994, Kumar, 1996), as mentioned in the opening part. Thirdly, innovations in communications technology, the increasing globalisation of business, the increased ease of the transportation of people, goods and ideas (explicit rather than tacit knowledge as discussed above), has 'reconfigured exchanges and the coordination of work across distance and time' (McEvily et al., 2003a, 1). The resource based view of the firm suggests that knowledge is the ultimate resource for firms in the 'knowledge economy', (Lundvall and Johnson, 1994). Its creation, distribution and utilisation through intra and inter-firm exchange, lies at the very core of organizational rents (Grant, 1996). When comparing markets, hierarchies and networks in terms of knowledge creation and transfer, Adler (2001), maintains that trust based relationships are the most effective governance mechanism for exchanging knowledge. This point of view of the importance of trust in the transfer of tacit information is developed and expanded notably in the literature of proximity (Gertler, 2003, Boschma, 2005a, Lambooy, 2002).

These seemingly unrelated trends have challenged researchers to explain new organizational forms such as joint ventures, networked and virtual companies. McEvily et al., (2003a), postulate that these new organizational forms, and may I suggest, a new organizational paradigm, increase interdependence and uncertainty. Firms in this more open, fluid and globalised business system 'become more dependent on, and more vulnerable to, the decisions and actions of others' (McEvily et al., 2003a, 1). This last quote could be taken to be a definition of trust as discussed below. Trust has come to be seen as not only a control mechanism in its own right, but also a source of superior firm performance (Ring and Van de Ven, 1992, Sako, 1998, Barney and Hansen, 1994, Bradach and Eccles, 1989). Much initial trust research in organization studies has centred on this last question, as if to legitimate and justify trust as a research object in organization and management studies.

II.1.b: What is the Nature of Trust?

Debate exists about the very nature of trust. Does trust include a moral element, the idea of honouring one's word and protecting the interests of others (Hosmer, 1995), or is trust a calculation of the likelihood that one's partner will conform to one's expectations, (Coleman, 1990, Williamson, 1993a, 1993b)? One's conclusions may derive from one's starting point (Mangematin, 1998), either, for example, the behavioural tradition or the rational choice model which looks at trust as the basis for cooperative choices in game theory (e.g. Hardin, 1992, Williamson, 1981), or from a psychological tradition (Mayer et al., 1995, Rousseau et al., 1998) which looks at the intra-personal states associated with trust such as expectations, intentions, and affect, or finally, from a sociological approach (Granovetter, 1985, Zucker, 1986, Lewis and Weigert, 1985), where interactions between interdependent agents are the key to unlocking the conundrum of trust. These differences stem from conflicting views of human nature and to what extent it is tempered or not by social interaction (Orléan, 2000). In other words, are humans purely rational egoists or does social exchange and context inject moral considerations into people's behaviour (Lane, 1998)? The very notion of trust sits uncomfortably with dominant economic models in terms of the rationality of actors (Simon, 2007). There is even debate as to whether too much trust is a good thing or not. Kramer (2009), in light of the Madoff Ponzi scheme¹², maintains that people trust too easily. Trust can be used to negative effects as Gambetta's (1998) analysis of the *Cosa Nostra* shows. Too much (naïve?) trust bestowed in a partner actually increases the potential gains from opportunism. 'Prudent paranoia' may be a more appropriate strategy (Kramer, 2009).

Trust is not an unconditional value. Its value depends on the context and the ends to which it is used (Brenkert, 1998). 'Honour amongst thieves' can lead to some very negative consequences. Gambetta (1998), asked the question 'Can we trust trust?'. The opportunity to betray trust to personal advantage creates the doubt that leads to mistrust. The rhetoric of trust may be hypocritical and designed to manipulate others. Trust can be used to force others into forms of loyalty and responsibility that stretches beyond ordinary behaviour.

¹²\$19 billion and counting. It is worth noting that Madoff made extensive use of his social links with different Jewish groups, charities and universities etc. in order to gain investors' confidence. Madoff certainly used his social networks and his social capital in order to advance his objectives. Trusting Madoff was transitive through these networks (Coleman, 1990). The Madoff scandal is a good example of how trust can be used to negative effects.

Despite these very valid concerns about the negative outcomes of trust, most authors implicitly consider that trust is a positive phenomenon, facilitating or ‘oiling’ social interactions and creating the conditions for future cooperation.

Bachmann (2001, 338) saw hope in the rise in importance of trust studies as proof of the ‘deep desire to see benevolence and altruism prevail in social relationships between economic actors’ in order that business relationships ‘transcend the Hobbesian state of *homo homini lupus*’. In this moral, normative view, humans are not self-interested and opportunistic, but common honesty and decency may also be found in business relationships where actors voluntarily refrain from opportunism and the socialisation processes inherent in repeated interactions push actors towards loyalty not opportunism (Nooteboom, 2002, Ring and van de Ven, 1992, Li, 2012). In his discussion on the works of Simmel, Möllering (2001, 407) notes that Simmel attributes a moral value to trust which makes it ‘a special medium of social exchange’ and is something like ‘man’s faith in man’. Li (2012, 103) echoes this appeal for a different approach when he calls for trust research to ‘overcome the biased assumptions of self-interest and opportunism in neo-classical economics by evoking the opposite perspective of shared interest and transaction values’

Many scholars do not hesitate to underline the moral aspect of trust, where an actor is expected to go beyond self-interest and include the interests of the partner in their calculations. For example Ring’s (1996, 156) definition:

‘Trust is the non-calculating faith in the moral integrity or goodwill of others, on whom economic actors depend for the realisation of individual and collective goals when they engage in relations with unforeseeable futures.’

For Hosmer (1995), trust is accompanied by an assumption of an acknowledged or accepted duty to protect the rights and interests of others. A position which goes beyond the simple promise not to harm others, but provides a moral guarantee structuring behaviour. Hosmer, in an attempt to define trust by bringing together ethical philosophy and organization theory notes that of the ten first principles or decision rules of ethical social life (see table 2.1.1), ‘the only exception to the denial of primary self-interest is the economic efficiency of Adam Smith’ (Hosmer, 1995, 395).

Table 2.1.1 Ten Ethical Principles

Self Interest (Pythagoras). We should all look after our own self-interest without forcefully interfering with the rights of others.

Personal Virtues (Plato and Aristotle). We must adopt a set of standards for the ‘fair’ and courteous treatment of others.

Religious Injunctions (St. Augustine). The ‘Golden Rule’, reciprocity, present in many religions: ‘Do unto others as you would have them do unto you’.

Government requirements (Hobbes and Locke). Basic rules must be enforced by a central authority.

Utilitarian Benefits (Bentham and Mill). The greatest good for the greatest number.

Universal Rules (Kant). Never take any action that you would not be willing to see others, faced with the same situation, encouraged to take.

Individual Rights (Rousseau and Jefferson). Never take any action that impinges on the agreed upon rights of any others.

Economic Efficiency (Adam Smith). Always maximise profits subject to legal and market constraints with full recognition of external costs.

Distributive Justice (Rawls). The social contract. Never take any action in which the most vulnerable among us would be harmed in some way.

Contributing Liberty (Nozick). Never undertake an action which will interfere with the rights of others to self-development and self-fulfilment.

Table 2.1.1: Ten Ethical Principles (after Hosmer, 1995, 396-397)

However, many scholars would reject morality as a basis for trust as being too excessive a demand on the individual, and being culture dependent (Möllering , 2006, Saunders, Skinner and Lewicki, 2010, Bachmann, 2011)

Some economists reject outright the use of trust in the analysis of economic exchanges. Williamson (1975, 1993b) criticises the idea of trust as a governance mechanism. He explains that what people term to be trust is, in fact, calculativeness;

‘I contend that calculated trust is a contradiction in terms and that the study of economic organization is better served by treating commercial transactions without reference to trust’, (Williamson, 1993a, 99).

I shall examine this position more closely in the chapter below on trust as reason. Williamson considers it impossible to judge the limits of people's opportunism whereas trust will always have its limits. Unconditional trust is unwise (Williamson, 1993a). Even the most sincere and trustworthy partners who may wish to honour the trust placed in them may break down under temptation and pressure to survive (Nooteboom, 2007). Therefore trust, for Williamson, does not provide a reliable safeguard. If trust goes beyond self-interest, it is naïve and will not survive in markets and is better left to the private sphere of friends and family (Williamson, 1993a).

II.1c: Trust and Uncertainty

The trustor cannot be absolutely sure what the outcome of his or her trusting behaviour will be. Trust is future orientated. Trust is an expectation, that is, a belief in the likely future actions of another. Uncertainty must be irreducible for trust to exist. The trustor's information and expectations about the other's actions, motivations and utility cannot be complete. If information were complete, then trust would not be needed, nor would it exist. On the one hand the trustor, acting under cognitive constraints, cannot evaluate all the possible actions of the trustee, and on the other hand, the agency of both trustor and trustee means that their actions cannot be fully determined. Therefore 'neither manifestations of trust nor the honouring of trust can be forced or guaranteed' (Möllering, 2006, 8). Agents use trust as a simple heuristic, a frame of reference that allows them to conserve cognitive resources (Uzzi, 1997). Without trust the inherent uncertainty of the future would make decision making impossible and paralyse all actors.

While risk is randomness where the probabilities of future outcomes can be assessed, uncertainty is a state where neither probabilities nor alternatives can be known by the actors. In this sense trust falls into the category of Knightian uncertainty (Möllering, 2006). This view is contrary to the rational choice school (Williamson, 1993, Coleman, 1990, Hardin, 1992), where trust is a subclass of decisions under risk. Williamson (1993a,b) views trust as a form of calculativeness, whereas, as shall be discussed below, Coleman (1990) argues that trust is a kind of bet (equally a calculation) where actors evaluate the likelihood of trust being honoured (or not).

Adaptation to uncertainty is, according to Williamson (1991b, 163) ‘the central problem of economic organization’. Increasing interdependency of actors has the effect of increasing uncertainty. North (1990) argues that while humans have decreased the level of uncertainty in our natural environment (secure food supplies, avoiding being eaten by wild animals, health care), people have correspondingly increased uncertainty in our human environment (increased dependence on people from outside the clan or tribe¹³, people one doesn’t know personally). Small firms, such as those which dominate industrial districts, with limited resources, are more vulnerable to uncertainty (Mintzberg, 1994). Trust is related to a subjective view of the future, in many ways it ‘fills in’ for uncertainty by providing likely future outcomes for present decisions (Dupuy and Torre, 2006, Quéré, 2001). Trust ‘reduces social complexity through generalisation within systems’ (Möllering, 2001, 409). According to Luhmann (1979, in Möllering, 2001, 409) it ‘substitutes inner certainty for external certainty and in doing so raises its tolerance of uncertainty in external relations’. Or to quote Simmel (in Möllering, 2001, 405), the function of trust is to provide ‘a hypothesis certain enough to serve as a basis for practical conduct’.

II.1d: Debating a Definition

If scholars debate the very nature of trust, it is no surprise then that there is also debate about the definition of trust. Is it the opposite of opportunism as Barney and Hanson (1984) and Hosmer (1995) maintain? Are there different forms of trust inherent in relationships over time? Is trust a psychological state or an action? Is trust simply ‘calculativeness’ (Williamson, 1993b)? Is trust a natural attitude or is it acquired through interactions and experiences (Glanville and Paxton, 2007)? These problems arise from the usage of an everyday term whose meaning depends on its context (Lorenz, 2001) and the analytical approach chosen by a given researcher.

These debates are further confused by the fact that scholars frequently omit to define the object of trust in their analysis, or, who, in fact, is doing the trusting. For example, can organizations trust (Zaheer et al., 1998)? Is interpersonal trust the same as the trust one may feel towards institutions such as ‘the police’, ‘the legal system’, ‘paper money’ etc.

¹³ Fukuyama (1995), considers the question of expanding circles of trust beyond family and clan as central to the production of trust.

(Quéré, 2005)? Do people trust their doctor because they went to medical school or because they act out the role of a doctor? The different levels of analysis are difficult sometimes difficult to discern and in any case interact with one another over time (Zaheer et al., 1988).

Here is a short review of some current definitions in the literature, starting with the idea that trust is a calculation.

Both Gambetta (1998) and Coleman (1990), consider trust to be the calculation of the probability that the trustee will conform to the (positive) expectations of the trustor. For Gambetta, trust is the sufficiently high probability that the exchange partner will undertake a positive action, or at least refrain from undertaking a negative action, during a cooperative venture.

While Ring and Van de Ven (1992) define trust as;

- Confidence in the predictability of another's actions, and
- Confidence in the others goodwill,

This definition avoids the trap of calculating probabilities; it reveals some of the inadequacies in early attempts at defining trust. Firstly, predictability does not lead to trust. One may be able to predict with some certainty another's actions, but these actions will not inspire confidence if they deliberately or inadvertently lead to loss. Secondly, a partner may be full of goodwill and benevolence, but are they technically competent to undertake the desired action? Therefore while sailing with a friend, I may fall into the water. I know my friend will try to rescue me (predictability), because he's my friend (goodwill), but I cannot trust him to save me because he is such a poor sailor that he cannot manoeuvre the boat around in time. I may trust him but still choose to wear a lifejacket.

Barney and Hansen's (1994) definition (quoted above), that trust is the belief that the exchange partner will not take advantage of the weaknesses of the other, implies lack of control of the actions of the exchange partner but neglects to underscore a key aspect of defining trust: the trustor cannot control the trustor, who maintains full agency in deciding whether to honour my trust or not.

I shall adopt the following definition from Mayer et al. (1995), because it includes the key elements of uncertainty as to future outcomes linked to another's behaviour, and vulnerability to the actions of another who is beyond our control, in a particular context.

Trust, therefore, is defined

‘as the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor and control that other party’ (Mayer et al., 1995, 712).

Rousseau et al., (1998, 395), propose a similar definition but curiously omit the central notion of the trustor's inability to control the trustee's behaviour:

‘trust is the willingness to accept vulnerability based on the positive expectations of the intentions or behaviour of another’.

This acceptance of vulnerability must not be confused with the bases (antecedents) from which the trustor decides to trust or not, nor with their expectations. One agent (the trustor) decides whether to rely on another (the trustee), expecting that the trustee will not act in a manner to harm his or her interests. Accepting vulnerability does not mean that the trustor anticipates harm which would imply certain masochistic tendencies. The trustor clearly desires positive outcomes when entering into trusting relationships. This vulnerability lies at the heart of trust. It implies that something important to the trustor is put at risk. When a trustor trusts, it means that he or she no longer expects to be harmed by the trustee (Möllering, 2006).

Finally, it is important to recognise that both the trustor and trustee are embedded in a social context which influences how they define themselves as actors and act their agency (Bachmann, 2011).

‘Trust is practically never a purely dyadic phenomenon between two isolated actors; there is usually a context and a history’ (Möllering, 2006, 9).

In this respect industrial districts are ‘ripe’ places to investigate trust because of the strong social bonds and the creation of local institutions over time as outlined above.

II.1e: Trust and opportunism.

Orthodox economics takes a dim view of *homo oeconomicus*. Not only are exchanges vulnerable to cheating and opportunism but principals cannot trust agents in accomplishing their contracts. Distrust, the negative side of human nature, dominates exchange theory. If trust is not the exact polar opposite of opportunism, then the likelihood of opportunism affects the decision to trust. For example Bradach and Eccles (1984, 104) define trust as ‘a type of expectation that alleviates the fear that one’s exchange partner will act opportunistically’. Transaction cost economics assumes opportunistic rather than cooperative motivations, but Uzzi found that in close network or embedded ties;

‘actors satisfice rather than maximise on price and shift their focus from the narrow economically rational goal of winning immediate gain and exploiting dependency to cultivating long-term, cooperative ties’ (Uzzi, 1997, 37).

Barney and Hansen (1994, 176) define trust as ‘the mutual belief that neither party will take advantage of the weakness of the other’. Terms that clearly place trust as the opposite of opportunism. While researching the processes involved in inter-organization partnerships, Ring and Van de Ven (1992), saw that socialisation processes at work in the relationship pushed the actors towards loyalty (to the other party) rather than towards opportunistic behaviour.

Rational choice and relational perspectives project fundamentally different images of trust (and push empirical research in different directions). The tension between the two should be related to their disciplinary origins rather than to inherent features of the phenomenon they wish to investigate (Kramer, 2006). The two approaches should not be thought of as mutually exclusive; trust is not simply either instrumental and calculative or social and irrational.

I can perhaps sum up some of the ambiguity behind these two fundamental views of human behaviour with reference to Kumar's 1996 Harvard Business Review article on the role and place of power and trust in retailer-manufacturer relationships. Kumar begins by arguing that exploiting power in order to appropriate value created in the relationship, is a short term strategy and is ultimately doomed in the long run. He puts forward the following reasons; the relationship's power structure may become reversed to the detriment of the formerly powerful firm, the weaker partner will seek to leave the exchange, and cooperation brings greater benefits. None of these arguments are moral arguments by any means. They are entirely calculative and self-interested. However, while the means that Kumar recommends to arrive at the utilitarian end of higher performance do include some calculative strategies, they are, by and large, founded in social, moral and institutional considerations. For example, open bilateral communication between partners is recommended in order to create common goals and make suppliers 'feel part of the Marks and Spencer family'¹⁴ (p100). Familiarity and personal relationships (frequent contacts in a long term relationship) between purchasers and buyers are encouraged in order to build empathy and an understanding of the partner's point of view. In the same vein, Kumar proposes the creation of similar values and taking into account a potential partner's values when entering into new exchanges as a means to build trust. Calculative strategies include increasing interdependence (i.e. increasing vulnerability to the other, and seeking to create joint objectives, i.e. encapsulating trust, Hardin, 1992, see below), and investing in credible commitments such as specific information systems and joint publicity campaigns.

Kumar's 'guiding principle' in managing such relationships is to move from self-interest (exploiting power in adversarial relationships) to a moral objective which takes the others interests into account by 'pursuing what is fair' (p105). Control, through power alone, according to Kumar, is ultimately self-defeating and leads to distrust. Trust is proposed as the key to managing interfirm relationships. This leads to better cooperation and higher performance. Kumar's argument involves the paradox of mobilising moral and institutional elements (what is 'fair') to attain one's (self-interested) objectives.

¹⁴Kumar analyzed buyer-seller relationships in the retail industry

II.1f: Trust: A Natural Disposition or a Social Phenomenon?

While people may have a natural propensity to trust more than others (Mayer et al., 1995), a natural attitude that is a function of their experiences and personality, independent of the particular context in which they find themselves (Simon, 2007), trust researchers have moved away from the idea of trust being solely an inherent character trait (and that this trait is the dominant independent variable leading to trusting behaviour), to being a product or outcome of a relationship in a given social or economic context (Lewis and Weigert, 1985). For example, trust models such as that proposed by Mayer et al. (1995), neutralise the trustors 'natural' propensity to trust, and in Möllering's 2006 integrative model, which I shall apply to industrial districts, an individual's propensity to trust is mentioned only in passing. Möllering (2001) traces this analytical evolution from the psychological to the social back to the work of German sociologists Georg Simmel and Niklas Luhmann, both of whom strongly influenced in turn Lewis and Weigert's 1985 paper which placed the question of trust squarely in a social context.

Trust is based in the interaction of two agents, who, through the necessity of dependence (mutual or otherwise), must interact (Lewis and Weigert, 1985). 'Trust allows social interactions to proceed on a simple and confident basis', (Lewis and Weigert, 1985, 969). The need for trust arises from the incertitude of others' actions: actions which are beyond our control. Interpersonal trust is an attribute of the relationship, it cannot exist outside of interactions, whereas trustworthiness is the attribute that one person may accord another who is involved in the relationship (Barney and Hansen, 1994, Li, 2012).

II.1g: Trust and Cooperation

Trust and cooperation are often confused (Mayer et al., 1995). I will adopt Gambetta's (1998, 213) definition of cooperation, where it is defined in a broad institutional sense as agents 'agreeing on any set of rules, - a 'contract' that is then to be observed in the course of their interaction'. Gambetta underlines the fact that the rules in question may be explicit or implicit, a result of prior experience, trial and error etc.

Trust may (and does) lead to cooperation but is not a necessary pre-requisite for cooperation, because cooperation may not necessarily indicate vulnerability of behalf of one of the cooperating parties. Equally, an authoritarian manager may force two employees

to cooperate even though one may not trust the other. The distrustful employee may appear to trust (and may have strong incentives to appear to trust) but his or her behaviour is linked to the perceived lack of risk (Mayer et al., 1995). A person's actions may be interpreted as being based on trust, but they may in fact, be based on other motives or rationales. External control mechanisms that punish deceitful behaviour, a situation that does not put someone at risk, if the trustor's motives lead him or her to behave in ways that do not harm the others interests; all these cases may lead to cooperation without trust (Mayer et al., 1995).

II.1h: The Three Levels of Trust

Trust functions on micro, meso and macro levels (Humphrey and Schmitz, 1998). Whereas trust originates in individuals, the object of trust can be another individual (micro-level). At the meso or intermediate level, the object of trust can be a group such as a family, a sports club, an organization or even local communities or professions ('dentistry', 'lawyers' for example). At a macro level the object of trust would be a distant and relatively abstract entity such as the law, the financial system or even international or global systems etc., (Zaheer et al., 1998, Möllering, 2006). This last level is the trust that Luhmann called system trust (1979, in Brenkhert, 1998). It is clear that whatever level of trust studied, the boundaries between these levels are not clear-cut and there may be interactions between the different levels. For example a manager may be more inclined to trust a manager from a supplier firm which has obtained the most recent quality control certificates, thus combining all three levels. The links between the three levels of trust are rarely studied, but in their 2003 paper Perrone, Zaheer and McEvily, investigate trust accorded to purchasing managers by suppliers and find that the more autonomy purchasing managers have in their organization the more their suppliers are likely to trust them.

Figure 2.1.1: Three levels of trust (after Zaheer et al., 1998, Murphy, 2006)

Debate exists about whether organizations can trust through rules and procedures etc., such as the routines instituted by Japanese auto firms for dealing with suppliers (Dyer and Chu, 2000, 2003), or where banks provide rules for lending which are applied independently of loan officer rotation (Hagen and Choe, 1998). Currall and Inkpen's 2002 paper for example, examines trust at interpersonal, inter-group and inter-organizational levels, maintaining too, that organizations and groups can trust. Koenig, (1994), proposes a solution to this problem by suggesting that inter-organizational trust is made up of the combined threads of interpersonal expectations.

McEvily et al. (2005) warn against mistaking the level of analysis in trust studies and of the danger of inappropriately anthropomorphising groups and organizations. 'We need to be able to identify trustors and trustees in order to be able to speak of trust' (Möllering, 2006, 7). Confusion about which level of trust being analysed can lead to failure to identify who is actually doing the trusting which in turn limits the clarity of the analysis. For example, in their study of inter-organizational trust in public-private initiatives in Holland, Edelenbos and Klijn (2007), neglect to clarify which level they are analysing. When remarking on the growing level of distrust between the actors, it is difficult to understand who precisely is

doing the trusting as distrust grows between a consortium of road and tunnel building companies and the regional government (p39).

Trust is centred in the individual's willingness to make a leap of faith when dealing with uncertainty and vulnerability. The most relevant level of trust is the micro interpersonal level which is influenced by multiple layers at the group, firm and national levels (Simon, 2007, Saunders et al., 2010). Trustors want to know trustees. The decision to trust is based on many dimensions and sources as will be discussed below, but the object of trust is first and foremost another person. Lorenz (2001), in his study of machine manufactures around Lyon, France, saw that managers needed to know personally the exchange partner before trusting (cf. *guanxi*, mandarin for closed networks and the preference of Chinese managers to exchange with existing partners). Ring and Van de Ven (1994) noted the anchoring of trust in interpersonal bonds created through on-going interactions as formal legal contracts (between organizations) gave way to psychological contracts (between actors) and role interactions were replaced by personal interactions.

‘Ultimately, the decision to trust must occur at the micro-scale where agents evaluate and consider the risks, benefits, performances, and institutions influencing a particular exchange relationship or social interaction’ (Murphy, 2006, 440).

Is the trust that one may have towards an individual the same as the trust that one may feel towards an organization or system such as the justice system of a country? Quéré (2005), maintains that these are two very different types of trust and that one cannot apply the mechanisms of interpersonal trust to an institution. Trust in an institution is ‘a quasi-trust founded not on an inductive generalisation, but on the knowledge of a normative idea’ (Quéré, 2005, 199). For Quéré, trust is uniquely operative at an interpersonal level.

Coleman (1990) notes the importance of taking the different levels of trust and their interaction into account. For Coleman trust is a social phenomenon which links the micro to the macro level.

‘The micro to macro transition through which these actions (making or breaking trust) combine to bring about the behaviour of the system; and the macro to micro

transition through which some state of the system modifies the decisions of individual actors to place trust and be trustworthy' (Coleman, 1990, 175).

Whatever the interplay between the different levels of trust, the micro level of trust is never completely irrelevant. In my study of trust in industrial districts I shall concentrate on the interpersonal trust level between managers and owners of small firms. But the point of departure is the trust felt by the individual towards the object, in this case, either, another manager, buyer, or another firm.

II.1i: Three Antecedents of Trust

In examining the origin of trust I shall follow Lane's (1998) and Möllering's (2006), analytical structure by regrouping the sources of trust into three general categories, both approaches being grounded in Zucker's influential 1986 paper, by regarding the sources of trust from the three dimensions of reason, routine and reflexivity. Murphy (2006) also uses these dimensions (without reference to Lane's work), naming them, respectively, calculated, embedded and acted trust. These dimensions, coupled with the notion of suspension permit us to draw a complete picture of this complex social phenomenon (figure 2.1.2).

This model is a simple heuristic regrouping the literature on trust in organization theory. In doing so, it is important to note that these antecedents operate in a dynamic and symbiotic manner rather than to suggest that they operate completely independently. However, for the purposes of analysis it will be useful to consider them gradually and in a phased manner. Each of the three dimensions act as a basis for trusting. Individually and combined they bring the actor to the point of taking the leap of faith that Möllering qualifies as 'suspension'.

Figure 2.1.2: The Wheel of Trust (Möllering, 2006, 110)

Each of the three antecedents of Möllering's model is insufficient in itself to explain why people make the decision to trust. As will be discussed, below each dimension goes only so far in explaining why people trust. It is necessary to introduce a fourth factor to reason, routine and reflexivity, the concept of 'suspension' (Möllering, 2006). The idea of suspension or 'leap of faith' (Lewis and Weigert, 1985).

II.1j: The Leap of Faith or Suspension

These three foundations provide a solid basis for the leap of faith that is trust (Lewis and Weigert, 1986). Because these foundations do not, in themselves, explain how agents overcome irreducible social uncertainty and vulnerability, Möllering (2006) proposes a fourth and central mechanism, 'suspension' or the 'leap of faith', meaning the facility with which agents trust despite the impossibility of calculation, despite information

asymmetries and incomplete or uncertain local institutions that engender social uncertainty. The leap of faith will be discussed in detail in part 5 below.

Summary to Part 1

Trust is a commonly used word in everyday language, and as such means different things to different people. It is generally considered to be a positive phenomenon, but can also be employed to negative ends ('honour among thieves'). Certainly, in management literature it is accorded positive attributes such as facilitating transfer of information and reducing transaction costs. The definition adopted encompasses the principal aspects of trust discussed in length above. Trust exists in conjunction with uncertainty. It is used by actors to reduce uncertainty to 'manageable' proportions. Trust denotes a willingness to accept vulnerability to others actions even though the trustor is incapable of controlling the other parties actions. This willingness, or psychic state or disposition will lead the trustor to make a trust decision which manifests this vulnerability. Trusting therefore involves agency. The actor must be free to choose to trust or not. Without this choice there is no trust.

The object of this thesis is to examine trust in a very specific context: that of a dynamic industrial district. I shall adopt the point of view that trust is, above all an inter-personal phenomena where individuals search to align expectations of a possible future (Murphy, 2006). By adopting this point of view I will concentrate on individual managers' trusting decisions in industrial districts, i.e., I shall examine one actors' trusting attitudes and trust decisions towards other individuals (micro) and organizations (meso level).

The antecedents of trust may be analysed from different perspectives, namely rational, institutional or process perspectives. A rational approach, that of the rational choice theory, is exemplified by the work of Coleman (1990), Williamson (1993a, b), Hardin, (1992) and game theory (Axelrod, 1981, 1984). If economists tend to see trust as based on calculation then sociologists and organization scholars see common values and moral orientations as the basis for trust (Lane, 1998). Others tend to classify the foundations of trust into two groups: a) personal contacts and knowledge and, b) impersonal sources of trust such as sanctions and norms (Dolfsma, Van der Eijk and Jolink, 2009). Trust here is the trust that comes from shared values (Fukuyama, 1995). It is the basis of the communitarian model

where exchanges are embedded in a dense local socio-economic context, described above (Putnam, 1993, Harrison, 1992). This is the second analytical dimension used to examine trust, trust that Möllering calls 'routine' or trust that is taken for granted, institutional trust in Zucker's 1986 model. Although, as Lane points out, relying solely on common values and norms would be as one sided as considering trust on purely calculative terms. It would make trust a very rare commodity indeed and virtually put a stop to all transactions between people of different cultures. The third dimension brought into the debate by Lane (1998) and Möllering (2006), is the common sense, intuitive view, that of trust being built up through the repeated interactions that allows actors and organizations to start exchanges with very limited knowledge of each other (Ring and Van de Ven, 1994). Each approach indicates key sources of trust but cannot explain trust entirely. The concept of suspension helps us to bridge the gap between the antecedents of trust and the decision to trust.

A summary of this discussion of the nature of trust in inter-organizational exchanges would include the following points (Hosmer, 1995, Lane, 1998, Lorenz, 2001);

- mutual interdependence is assumed,
- trust is a way of reducing uncertainty,
- the trustor expects the persistence of the natural and existing social order,
- trust is contextual, actor A trusts actor B to do action X. A expects B to be technically competent to undertake X,
- A expects B to be morally correct,
- trust is associated with willing, not enforced, cooperation
- A is vulnerable to B, the trustor has the expectation that the trustee will not take advantage of the decision to trust
- A cannot control B but relies on B to act as their agent in their interest

In the following four sections I shall examine three antecedents or bases of trust and conclude this part with a discussion of the concept of suspension.

Chapter II, Part 2

Trust as Reason.

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Chapter II, Part 2:

Trust as Reason: An Economic Approach

Introduction

Given the axiom of *homo oeconomicus*, methodological individualism and self-interested utility maximisation, trust, for economists, is seen as a rational or at least a reasonable choice based on the perceived trustworthiness of the trustee. Trust is reduced to a calculation of a) the perceived trustworthiness of the trustee, and b) the gain/loss to the trustor if trust is proposed and honoured or not honoured (Coleman, 1990). Thus research in this domain is divided into two areas, modelling the trustor's expected future net values (what A will gain if they trust B), and identifying indicators of perceived trustworthiness (is B worth the bet?). This stream is exemplified in Mayer et al.'s (1995, 720) definition, where trust; 'will be a function of the trustee's perceived ability, benevolence, and integrity'.

In this section I shall examine Coleman's rational choice model and its limitations, paying particular interest to the role of information in the decision to trust. This is important in studying trust in industrial districts because districts are described as 'transparent community markets' (Maskell, 2001, Maskell and Lorenzen, 2004) where actors have ready access to large amounts of pertinent information which allows them to judge their partner's trustworthiness. I shall then examine how trust is treated (or rejected) in economic theories and transaction cost analysis. Finally, I shall look at game theory approaches and the trust game as they are applied to industrial districts. My central argument is that actors in districts possess 'above average' information about prospective partners which facilitates the 'bet' as to a partner's trustworthiness. This facilitates the 'leap of faith' or suspension as will be examined in part 5. However, while all trust involves some calculation or evaluation of the partner's trustworthiness, the limits of rational models are rapidly exposed as inadequate and insufficient because of the bounded rationality of agents and the overwhelming complexity of social life (Lane, 1998, Humphrey and Schmitz, 1998).

II.6a The Rational Choice Model

Coleman (1990) argues that a trustor's decision to trust will depend on his expected gains (G) or losses (-L) (compared with not trusting, 0) according to whether the trustor honours the trust proposed, (the probability that trust will be honoured is p ($0 < p < 1$)). The trustor's bet is reproduced in figure 2.1 below.

Figure 2.1 The Trustor's Bet (Möllering, 2006, after Coleman, 1990)

The central heuristic of this model is that a 'trustor will rationally trust a trustee if he perceives the probability of a trustee's trustworthiness to be high enough to yield a net expected gain', (Möllering, 2006). This plausible model points to an important question: in order to trust, how does the trustor acquire the estimates for G, -L and p ? Coleman admits that this information will not always be readily available (p , or probability, being the most difficult to ascertain). Agents will therefore delay a decision to trust until they have undergone a search for more (and more reliable) information. This search will 'continue so long as the cost of an additional increment in information is less than the benefit it is expected to bring' (Coleman, 1990, 17). Coleman here ignores a basic economic paradox already highlighted in the discussion above of Adler's 2001 paper; that of the impossibility of knowing the value of information that one does not possess, and therefore the impossibility of evaluating how much effort to expend in order to obtain this information. District and cluster literature dealing with trust is less than clear on the proposition that more information = more trust (assuming benevolent intentions). While Maskell (2001) in his discussion of the importance of information in clusters, states very clearly that information supplies the basis for trust, Oliver, Garrigos and Porta (2008), inverse

causality believing that trust leads to more information exchange, while for Lorenzen, (2002), firms need information about one another and sharing information is the first step on the path to trust.

There comes a moment when trustors will have to make a decision based on incomplete information, therefore making themselves vulnerable to trustees' actions. Taking the 'trust as bet' model to its logical limits implies that trustors *cannot* trust because of the lack of sufficient information. Or, that they do trust *despite* insufficient information, in which place the model does not explain trust. In Chapter I part 3 above I have discussed the industrial district as a 'transparent community market' and keeping in mind the obvious exaggeration that the word transparent implies, the overlapping of different social and business networks (Mistri and Solari, 2001), coupled with long family histories and the different proximity effects discussed above, agents in industrial districts possess 'above average' information concerning the motives and behaviour of district exchange partners. Geographic proximity introduces the possibility that actors may pick up information without interaction through mere 'expert' observation (Maskell and Lorenzen, 2004).

It is not enough for actors to possess information, they must also be willing and inclined to pass on the information about prospective partners. As Sydow (1998) remarks, openness is important to ensure that the relative information is passed onto to friends and associates. Lorenzen (1998) describes gossip as being one of the key social processes in transferring communication in districts.

But can agents, even in information rich industrial districts, possibly know all relevant information? The abundant information in industrial districts reduces the distance of the famous 'leap of faith' (Lewis and Weigert, 1985), or, in Möllering's (2006, 17) terms, if trust is 'bracketing the unknowable', then industrial district agents have less 'unknowable' to bracket, thus Coleman's model may go some way in helping to explain how industrial districts generate trusting relationships but cannot explain the final leap (see part 5 on trust as a leap of faith).

The creation of trust in industrial districts is supported by a second aspect of Coleman's model. As Coleman's primary objective is to build a social theory which moves seamlessly from the micro to the macro level (see quote above), he sees the role of network

intermediaries as an important contributor in the construction of trust in, and beyond the A-B dyad. If B interacts with different trustors, A, A1, A2, etc., B will then have a strong interest in honouring trust when the different trustors also interact among themselves. B's incentive to honour A's trust will be stronger if exploiting A's trust means jeopardising revenue streams from A1, A2, etc. This mechanism works well when there is a close, tight knit community of trustors and efficient communication between trustors. Again, this would be the case in industrial districts. Also, these 'chains of trust' have the effect of making trust transitory, where trusted intermediaries vouch for the trustworthiness of others. These 'chains of trust' in networks are reinforced a multiplexity of relationships in districts as actors interact in a variety of contexts for a variety of reasons (Sydow, 1998). Trust is spread throughout the network through intermediaries and reputational effects. This is all fine and good, but the increase in the numbers of agents in the system also increases the number of p's to calculate, making ever higher demands on the computational capacities our rationally bounded agent.

Another difficulty arises, when, because in order to evaluate p, A must be able to evaluate B's motives. Coleman assumes that agents share visions of the future. Other sociological accounts of trust would 'stress that the emergence of the future is in itself in need of explanation' (Lane 1998, 5). This further muddies the betting waters, because all humans are necessarily opaque to others (Hollis, 1998). A must evaluate whether B is interested in a long term relationship, is the trust mutual, does B honour their word etc.? The trustor must factor in elements (notably of B's net expected returns in honouring or exploiting trust) which he or she cannot possibly know because the social nature of action undermines any attempt to predict outcomes. 'The future is rarely preordained' (Bradach and Eccles, 1989, 108).

Here, the trustor must be capable of identifying with the trustee. He or she must be capable of seeing 'the world from his perspective' (Dasgupta, 1998, in Möllering, 2006). Seeing the world from another's perspective is made all the more easier when the trustor shares a common identity with the trustee, which is the case in industrial districts where socialisation processes such as family, education, experience and repeated interactions create local world views and common points of references for agents (Pouder and St John, 1996).

Encapsulated trust is when A believes that B will honour trust because it is in B's interest to do so (Hardin, 1992). Trustor A can see that B will be able to maximise their gains by taking A's interests into account, i.e. by honouring the trust that A has placed. A's trust encapsulates B's trust. B will not exploit A's trust because that would mean harming their own interests. Alignment of the trustors' and trustees' interests come about, according to Harding, when both parties are interested in long term relationships. Expectations may become aligned through repeated exchanges. Interfirm relationships in districts may last several years and even span several generations (Mistri and Solari, 2001), which build up common norms and values, implicit rules and understandings which are tied to specific circumstances (Bell, Tracey and Heide, 2009), but they may also be generated through both agent's realisation that 'sunk costs', i.e. the efforts taken to build up trusting relationships, means that it would be too costly to break the relationship through opportunism (Maskell and Lorenzen, 2004).

II.2b: Trust in Economic Theories

While many studies aim at showing the positive aspects of trust, it is striking to note that most models take opportunism as their starting point and underline the risks of exploiting trust and the safeguards needed against untrustworthy partners. As opportunism is the rule, then it would seem that all agents are untrustworthy (Barney and Hansen, 1994, Nooteboom, 2002). All agents are not necessarily opportunistic to the same degree, but, for Williamson (1979, 234), the 'less opportunistic are difficult to ascertain *ex ante*, and that even among the less opportunistic, most have their price.'

Williamson (1993b) criticises Coleman's concept of trust, saying that trust has been confused with 'calculativeness'. Economists and rational choice proponents appear to largely agree that calculativeness is the main mechanism at work and not trust (Möllering, 2006). Trust has no place in business and Williamson (1993b, p484), hopes that 'trust will be reserved for non-calculative personal relations'. The question of trust is explained away because far-sighted calculativeness is the behavioural assumption founding economic theories. However, a far-sighted calculative agent capable of anticipating changes in the environment, likely outcomes and unintended consequences, would be an agent that negates the very idea of bounded rationality (Lane, 1998, Humphrey and Schmitz, 1998).

‘The model assumes an individual who is simultaneously highly prescient *and* aware of the limits of her rationality, who is able to completely divorce economic from social ties.....This under-socialised view, however finds limited acceptance among economic sociologists, and even among many economists’ (Lane, 1998, 6).

Despite Williamson’s desire to eliminate trust from the equation, many authors have striven to integrate trust into transaction cost economics and to show that it can reduce transaction costs (Barney and Hansen, 1994, Jones, Hesterly, and Borgatti, 1997, Gulati, 1995, Dyer and Chu, 2000). Apart from numerous authors who have shown empirically that trust may reduce transaction costs (see Dyer and Chu, 2000), Chiles and McMackin (1996), show how trust can raise or lower the change-over level from one form of governance to another (market to hierarchy). They propose that trust’s role in reducing opportunistic behaviour permits agents to economise on safeguards (*ex-ante* contracting costs and *ex-post* monitoring costs), which enables the use of market mechanisms at higher levels of asset specificity (see figure 2.2). This does however, require a relaxation of the opportunism axiom in order ‘to bring greater realism into the model’ (Chiles and McMakin, 1996, 96).

s

Figure 2.2, Effect of trust on transaction costs (source : Möllering, 2006)

Despite its interest, Chiles and McMakin's model is incomplete as they do not include network forms of governance. More importantly, they also ignore the effect of trust in hierarchies (effect B), so that the internal transaction costs are reduced. But the central point remains that trust reduces transaction costs.

I have already discussed the question of trust reducing transaction costs both in exchange dyads and in networks in chapter 1. One of the salient features of a developed industrial district is the very high level of firm specialisation (see Khan and Ghani, 2004, for a detailed description of the Faisalabad textile cluster in Pakistan). Products go through many stages of production in a disintegrated value chain, thus increasing the total number of inter-firm transactions. The multiplication of exchanges should, *caeteris paribus*, increase transaction costs along the totality of the value chain, as the specialisation of district firms leads to coordination problems and information asymmetries (Dei Ottati, 2002). For a given level of asset specificity, there will come a moment when transaction costs between independent firms in the district will exceed the level of internal transaction costs in a hierarchy. Total transaction costs in the market will increase over and above the gains acquired by increased efficiency through specialisation and one should see a reversal of disintegration and a movement towards consolidation of value chains in some districts. This does not seem to be the case in many industrial districts as the discussion of industrial district's future evolutionary paths above shows. Some districts are consolidating around lead firms while others are moving in the other direction (Whitford, 2001).

Trust comes down on the transaction cost reducing of the equation (alongside the efficiency increases due to specialisation). By reducing inter-firm transaction costs, trust has the effect of maintaining fragmented value chains consisting of multiple transactions between increasingly specialised independent firms. A high level of inter-firm trust could even have the effect of increasing the rate of disintegration of the value chain when, for example, an entrepreneur creates a new company specialised in a particular task, and works closely with their former employer, as is frequent in industrial districts. Trust levels are initially high; both the agents know and appreciate each other from past experience. The entrepreneur is providing a specialised service to the existing firm whose owner is diminishing his overall risk and increasing his flexibility by outsourcing. Transaction costs in this instance do not necessarily increase in this transfer of the exchange from hierarchy

to market because of the close ties and trusting relationship between embedded actors. Transaction costs could even be *reduced* in our example. The subcontracting company may have fewer monitoring costs if it believes that the entrepreneur's motivation will increase as they move from salaried worker to self-employed, thus removing the costs (for the subcontractor) of monitoring shirking employees. Trust could then provide a mechanism which facilitates firm specialisation, thus increasing overall district competitiveness.

II.2c: Game Theory Approaches to Trust

Game theory is a much used heuristic that illustrates many of the problems linked to the paradox of trust: it 'works in practice but not in theory', (Hollis, 1998, 1). Variations of the famous prisoner's dilemma game can be employed to investigate trust issues. I shall follow Möllering (2006) who draws on diverse sources (Deutsch, 1973, Dasgupta, 1988, James, 2002, and Kreps, 1990) in his discussion of game theory, outline the basic prisoner's game, look at why trust poses a solution and a problem to the dilemma and examine rapidly some of the solutions to this particular conundrum in order to show how rational choice models cannot explain trust.

The prisoner's dilemma is a simple thought experiment where two partners in crime are held in custody separately. The prosecutor tells them that if neither confess they will be convicted of a lesser crime they have committed previously and receive a small penalty a . If they both confess they will receive a longer prison sentence, b . If one confesses but not the other, he will become a state witness, receive no penalty, 0 , while the other will receive a longer prison sentence c . The structure of the penalty system, $0 < a < b < c$, means that they would both be better off if neither confess (penalty a). But, and here is the central dilemma, neither can trust the other *not* to confess, (the confessor would receive 0 , while the other a long prison sentence). Both realise this, so they will both confess, forfeiting 0 , receiving b in order to avoid c . Both criminals would logically prefer a to c , but their rational self-interest leads them to a sub-optimal solution, b . The challenge for game theorists is to devise a 'solution' to a situation where individual rationality leads to sub-optimal social outcomes (or a negative equilibrium state).

Trust has been proposed as one solution to the game. If the prisoners trusted each other, they would stay silent and escape with a . However, as they must make their choices

simultaneously and they cannot communicate, they have no incentive to trust as $0 < a$. As both can see the problem, it is not rational to trust by not confessing. Trust does not solve the problem because it would not be rational within the game's framework, and if it did occur it would violate the theory of rational choice.

II.2d: The Trust Game

Trust literature uses a variant of the prisoner's dilemma game, called the trust game (figure 2.3) in order to define more clearly the roles of each of the players. There are many different ways of depicting the trust game. Möllering adopts a combination of the tree and matrix forms in order to show more clearly the sequential aspects of the model and the choices the players may make.



Figure 2.3 The Trust Game (Möllering, 2006)

The trust game is one sided, as the trustor A cannot increase their gains by not trusting. A gains v by trusting B ($v > 0$) if B honours trust. B gains w (and $w > 0$) if he respects A's trust. B could gain $w+x$ if trust is exploited. If $w+x > w$, and both players know the pay-off structure, then B has no incentive to honour A's trust and A would not place trust in B, which means that the gain for both is 0. This outcome is similar to the prisoner's dilemma described above as the players' rationally taken decisions lead to a suboptimal (group or social) outcome (0). A and B would gain more individually and collectively if trust was proposed and honoured ($v+w > 0$).

Again, scholars have suggested many solutions to this problem, most of which are based on the way incentives can be modified in order to make B's decision to exploit A's trust irrational. I shall examine two such solutions rapidly before looking at the third proposed solution, which is the most relevant to industrial districts.

The first solution is to change the value of x (B's gain by exploiting trust) so that $x < 0$, thus $w+x < 0$. Why would $x < 0$ for B without interference from A or a third party? The only answer lies inside B's particular value system. B might feel guilty about having broken an internalised norm and a sizeable part of trust literature deals with the question of the weight of morality, or honouring one's word in business relationships (Hosmer, 1995). But as Williamson (1979) noted, everyone has a price and if the gains outweigh the scruples, then B will cheat. In any case, and here one can see one of the limits of the rational choice model, according to Coleman (1990), A has already integrated B's morality in their calculation of p (p being the probability that trust will be honoured).

Coleman discusses the roles of norms and social institutions but only in so far as they are part of the agents' choices. In his view, self-interested actors exploit social norms to punish untrustworthiness. Changing the level of influence like this only serves to complicate the A's calculations. A rational agent would have to calculate the strength of particular norms and institutions in which his or her exchange would take place (the strength, independence and impartiality of the Chinese legal system in litigation concerning a joint-venture manufacturing project in the Sichuan?), and then calculate the likelihood that the trustee would respect these formal or informal rules.

A second and more realistic possible solution is that of A and B writing a binding contract which would modify the incentives for both players so that honouring trust is the preferred action for the players, (see figure 2.4). The contract should involve a penalty for B, d , if they do not honour A's trust. A could equally propose B a reward, a , for honouring trust. In both contracts A would have to pay monitoring and enforcement costs, c . These contracts would therefore induce B to respect A's trust if $d > x$, or $a > x$. Obviously, A must write the contract so that the monitoring costs or the incentive do not exceed the expected gains. On B's side, the trust will be honoured if $a+d > x$. Given the right values for a, c, d and reliable information on x , it will be in both players rational interest to follow the trust sequence on the upper line of figure 2.4.

There are however serious problem with this solution. The penalty, d , may require further costs for A to enforce. If B realises that these costs surpasses $v-a$, then B will renege on A's trust. A may call on a third party to enforce the contract, but this will only increase A's incertitude.

Figure 2.4 The Trust Game with Contract (Möllering, 2006)

More seriously, the cost of a contract will diminish A's returns, and is therefore always be a second best choice. Another solution for A is to push B to trust by invoking, or threatening to invoke social norms and sanctions, such as ostracism or blaming, in order to destroy B's reputation as punishment. This would require A to expend more effort, e , in order to be sure that B's pay-off is reduced by f . However, B may see that it is not really in A's interest to spend more time and energy, as these costs may reduce A's payoff to zero. This proposed solution cannot work if A and B are isolated agents and the solution may come from putting A and B in a social context which may encourage B to respect trust in order to preserve their reputation and leave the door open to future exchanges with A or other partners that A would recommend.

This idea brings us to the most powerful solution to the trust game, that of Axelrod's (1984) 'shadow of the future'. B will honour A's trust in this first exchange because B wishes to have a pay-off w , multiplied by the number n of repeated exchanges. B's pay-off becomes nw , which should, if A can persuade B that there will be future interactions, lead B to think that $nw > w+x$. A minimum of two trusting exchanges will have a higher pay-back than one distrustful exchange. The roles become reversed in this case. B must trust A that there will be future exchanges.

Critics of this solution point out that in a series of n transactions, B has an incentive to cheat on the last one. His or her pay-off would then $nw+x$. A would see this, expect B to cheat on the last exchange and therefore the penultimate interaction would be the last one. As same logic applies for each of the interactions, the ‘backward-induction argument’ applies and A would not be able to trust B during the first exchange as this would be the last. A may not mind being cheated on the last exchange of a long series, if their losses $-y$ are smaller than their cumulated gains nv . But could a relationship when one partner expects the other to cheat at any given moment really be describing as trusting? A would have to calculate the probability of B cheating at some point in the series of exchanges and calculate their gains against possible losses for each exchange. It is possible that the best condition for a trustful series of exchanges is when both players believe that the exchanges will be repeated indefinitely. Given human mortality, this is a situation which is unlikely to occur. Nevertheless, reputations as well as firms are inherited in industrial districts (Mistri and Solari, 2001) and actors need to maintain public trustworthiness over generations.

This brings us to the idea of trust games and repeated games in industrial districts. Agents are mortal and transactions cannot be repeated forever, but in the canonical industrial district outlined in chapter 4, the majority of firms are small family firms which are often in their second or third generation of family owners (Mistri, 2003, Paniccia, 1998). Three remarks come to mind in this respect.

Firstly, many things such as stock, machines, clients etc., are inherited by the succeeding generation. Children also inherit the parent’s (i.e. firm’s) existing business network and ties, and their reputation for trustworthiness. In tightly bound social and business networks, the parent’s reputation is known and counts for something, children inherit this good or bad reputation: ‘leopards do not change their spots’. The parents may retire to the south of France, but their influence and tutoring does not stop immediately after handover. They can keep an eye on the children’s activities through their own social networks in the valley, for example. The ‘shadow of the future’ seems to be very strong in industrial districts. Reputational effects are passed onto succeeding generations (Mistri, 2003).

A famous experiment which has influenced trust studies over the last 25 years was a competition organised by Axelrod (1984). Axelrod invited a group of academics from different disciplines to submit computer programmes to play the trust game. The winner

would be the strategy with the highest outcome for the player. The winner was a simple tit-for-tat strategy, i.e., trust in the first move and then repeat whatever the other has done in the previous move. This strategy is reflexive (more of which later) as B's behaviour is rewarded or punished by A, and at the same time A has the capacity to 'forgive' past transgressions through appropriate reactions to past behaviour, thus provoking trusting behaviour in B if B wishes to modify their behaviour. A tit-for-tat strategy does not win all the time. Its success depends on a small number of trusting actors in the game, who through interaction among themselves can generate 'trust among egoists'.

In the tit-for-tat game strategy it is sufficient that agents adopt a trust forming rule at the first exchange and adapt their responses subsequently to the other's behaviour. Over time this trust will spread throughout the district thanks to many overlapping networks. Agents who do not 'play the game' may be punished through exclusion and find their opportunities for exchanges reduced accordingly. Untrustworthy partners should be less profitable (Barney and Hansen, 1984). Untrustworthy behaviour is more visible and sanctions are more easily observed in smaller and tighter networks (Coleman, 1990). From this point of view an industrial district needs to be small enough to ensure respect of norms and efficient collective actions against opportunistic agents, thus maintaining their cost advantage, while at the same time they must be large enough to allow high levels of specialisation and multiple possible partners at different levels of the value chain in order to form and reform effective networks, and last but not least, networks need to be open enough to outside partners to allow the flow of new ideas into the district.

Thirdly, transactions in industrial districts do not take place between isolated utility maximisers. Agents in industrial districts do take into account other factors than their own individual utility maximising preferences. They identify strongly with their region as discussed above. They are, through history, culture and experience, team players. The frequent exchanges between different levels of the value chain and subcontracting practices (both volume and scope subcontracting) lead to a high level of interdependence (encapsulated trust). These factors contribute to a very clear idea of 'us' and 'them' (Becattini, 1991). District actors are team players as Hollis (1998) would say.

The backward induction argument implies that A is back to square one where they cannot eliminate uncertainty and vulnerability, and should not propose trust to B. Hollis, (1998),

concludes that all the outcomes in such trust games are indeterminate and do not eliminate the actors' mutual uncertainty and vulnerability.

To extricate themselves from this theoretical dead end, researchers have turned to empirical investigation to explain how the trust game works in real life and it would appear that the axiom of self-interested utility maximisation is not so axiomatic after all.

'It has been found empirically that actors deviate from the strictly rational distrusting Nash equilibrium and, in doing so, realize beneficial exchanges', (Möllering, 2006, 38).

It would seem that 'everyday strategic choice needs more information than can be represented by figures in a matrix' (Hollis, 1998, 140). Hollis, like Lane (1998) feels that standard economic models like the prisoners game *reduce reality* because 'flesh and blood persons have reasons for action which are alien to their abstract counterparts' (Hollis, 1998, 141).

Deutsch's (1953, Möllering, 2006) experiments were among the first to relax the assumption of utility maximisation and introduce three motivational orientations; cooperative, competitive or individualistic. Cooperative behaviour, thanks to the possibility of communication between players and observation of the other's choices, does, unsurprisingly, increase the possibility of trusting behaviour, while a competitive orientation induces distrustful behaviour. Interestingly, the simple repetition of transactions does not in itself produce trusting behaviour, but individualistic or competitive orientations produce in fact more distrust.

Summary to Part 2: Trust as Reason

The rational choice model and other ‘calculative’ answers to the origin of trust fails on several counts.

One criticism of this approach is that by ‘obliging’ actors to calculate all possible outcomes, rational choice models place actors in a context where ‘only the future counts for decisions made in the present’ (Lorenz, 1999, 304). Actors must ‘reason in the opposite direction of time’s arrow’ (ibid., 304). It also ignores the existing or past relationship between protagonists (Hollis, 1998).

As mentioned above, calculativeness assumes heroic calculative powers on rationally bounded actors who must not only possess a complete list of all possible outcomes and all possible states of the world, but also correctly anticipate their occurrence and attach probabilities to their occurrence, all the while evaluating their partner’s value of these outcomes (Lane, 1998, Lorenz, 1988).

The final criticism one could make of rational choice models is that they fail to explain ‘the first step in a game without history’ (Lane, 1998, 6). How can A trust B when A has no information about B’s trustworthiness? And if A does not know any mutually known intermediaries who could vouch for B’s trustworthiness? A is obliged to search for other reasons to trust.

Although rational actors would seem to calculate or evaluate the likelihood of trust/opportunism (Dietz, 2011), a theory of trust based on rational calculation can explain partially, and only partially, the decision to trust. Seen through the prism of information availability (though not computational capacities) industrial districts as ‘transparent communitarian markets’ (Maskell and Lorenzen, 2004) do seem to permit the creation of trust over and above the average. But for the reasons discussed above the rational choice approach cannot totally explain the decision to trust as ‘trust begins where rational prediction ends, as trust bridges the informational uncertainty’ (Lane, 1998, 6).

In his search for 'trust within reason', the solution, according to Hollis, (1998) is to change the question, 'What is good for me?' to 'What is good for us?'. This is not just substitution of collectivism for individualism, which would mean replacing one extreme behavioural assumption with another. Hollis bases his arguments in a social logic where actors wish to be part of a community as long as that community does not deny them their identity and freedom. The solution is through teamwork (i.e. community), where A and B coordinate by playing as a team in order to arrive at the optimum equilibrium. But are the prisoners reasoning as individuals or as a team? The question for rational choice theory is whether these ambiguities can be treated as uncertainties about pay-offs and whether people can recognise that people sometimes play as members of teams and an individual's victory is also the team's victory. Can rational choice theory find room for agents motivated by community spirit?

Where rational choice and game theory treats all pay-offs as prisoner dilemmas; Hollis, (1998, 140), believes that reasonable people might 'discriminate by whether the other player is a friend, enemy or stranger, and according to the character and context' of the exchange.

The rational choice paradigm cannot capture all aspects of social action; trust may originate in codes of norms of reciprocity and cooperation. Sanctions and social norms do not make their existence reducible to rational interest. 'Norms are ultimately autonomous and real, not merely the instruments of self-interested utility- maximisers' (Möllering, 2006, 20).

Part 3: Trust as Routine: An Institutional Approach

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Part 3 Trust as Routine: An Institutional Approach

Introduction

Everyday trusting attitudes are so prevalent that it is difficult to imagine agents calculating every single interaction with every single person encountered in every single moment of the day in a more and more complex, dynamic and incomprehensible world. The calculative approach to trust does not stand up to sociological analysis or empirical scrutiny (Lane, 1998). At the same time it cannot be assumed that trust is free of all calculation (Dietz, 2011).

If the ‘impossibility of calculativeness’ makes trust more difficult, then Humphrey (1998, 218) summarizes very well the institutional approach to trust.

‘The complexities of social organization are so great that some assumptions of how people behave are necessary before we can start to calculate’.

North (1991, 2003) defines institutions as the formal and informal rules that constrain economic actions. Shared meanings, routines (a procedure or programme that people follow regularly, or a recurrent action pattern, Nelson and Winter, 1982), roles and rules may restrain behaviour but they also induce trust by making life less complex and more predictable, therefore enabling trusting behaviour (Hodgson, 2006). Institutions can be sources of trust, contributing to shared perspectives and world views. They lead to a trust that is taken for granted.

But is this trust blind and unthinking? To believe that people trust out of habit because of social institutions is to fall into the opposite trap of thinking that people trust purely through rational, calculative processes. In the former case, one can envisage humans as over-socialised automates and in the latter, humans are seen as overly atomised, devoid of any social links (Granovetter, 1985).

Institutions contribute to trusting behaviour because they enable actors to have a world in common with others and rely on it, (Möllering, 2006). Zucker’s neo-institutional definition

of trust is ‘a set of expectations shared by all those in the exchange’, including ‘broad social rules’ and ‘legitimately activated processes’ (Zucker, 1986, 54). Therefore, trust for Zucker depends on actor’s capability to share a world in common and to rely on it. Trust here comes from a shared vision of the future.

This chapter is divided into three sections. Firstly, the argument for morality and ethics as sources of trust is considered. Then, I shall examine sociological theories which posit trust as a natural response to the irreducible complexity and uncertainty of social life. Finally, explicit institutions, rules and routines and their functioning as sources of trust will be discussed.

II.3a: Value or norm based trust.

Hollis (1998), above, has proposed a solution to the paradox of trust as seen from a calculative or rational point of view; that of a collective orientation towards individual and social action. Hollis’ objective is to continue ‘the enlightenment project’ and therefore to construct trust within reason without recourse to ethics or morality, but as discussed later in this chapter trust, or honouring trust, at least, has a strong moral component.

Many sociologists and philosophers have rejected self-interest as a possible basis of collective order to arrive at the idea that trust is possible uniquely through solidarity. Solidarity being defined as institutionalised shared values (Hosmer, 1995). The trustee will not exploit the trustor because of the moral aspects of social obligation and responsibility towards the welfare of others.

The communitarian model outlined above is a pertinent example of Hollis’s ideal of trust based on teamwork. This idea has been advanced by Parsons, (1951, in Lane, 1998), who rejected self-interest as a basis for social action and placed solidarity with institutionalised shared values at the centre of society. For Parsons, trust is the ‘suspension of self-interest in favour of a collectivity-orientation’, (Lane, 1988, 8). Both Alberti (2006), and Paniccia (1998), underlined the diminution of district trust in declining districts or districts faced with recessionary conditions and/or increasing international competition. According to Alberti, actors in the declining district became more and more individualistic and lacked a unifying world vision. Alberti’s conclusions are drawn from declarative statements from

the Come silk district where managers explain district decline retrospectively due to recession and increased international competition with a corresponding loss of community spirit. Paniccia (1998), in her discussion of the Prato district notes that not all relationships were governed by trust. Opportunism and bad faith forced some sub-contractors out of business when powerful clients demanded discounts on the basis of supposedly poor quality goods (p684). These Italian examples contrast with the conclusion reached by Barabel et al. (2007) in their study of the Arve Valley, who see district actors calling on and acting on community spirit and trusting relationships in order to confront the increasing challenges of foreign competition.

This communitarian approach to trust emphasises the morality of honouring trust, i.e. not exploiting someone from the community who may make themselves vulnerable to your actions by trusting you. This approach deals with the moral obligations and ethical considerations when someone has decided to trust and has evaluated the trustee as trustworthy. What might make a trustee honour the trust proposed?

Although rarely defining which side of the trust equation they are analysing (trustor decisions or trustee decisions), several authors seem to rely on a value laden vocabulary. For example, Zaheer et al.'s, (1998, 146), definition that trust is the expectation that a partner

‘will accomplish their obligations, behave in a foreseeable manner and, will act and negotiate in a fair manner even if the possibility of opportunism is present’.

Trust for Zaheer et al. (1998) is the belief that one's partner is reliable, predictable and fair. It is the word fair that attracted my attention here. Many researchers do not hesitate including such value laden terms as fair, goodwill right, or ‘serial equity’ in their definitions. For example, for Ring, (1997, in Dwivendi, Varman and Saxena, 2003, 98);

‘trust is faith in the moral integrity or goodwill of others on whom economic actors depend for the realisation of collective and individual goals as they deal with future, unpredictable issues’.

Granovetter (2005) states that trust is ‘the confidence that others will do the ‘right’ thing despite a clear balance of incentives to the contrary’. And although not strictly speaking a paper on trust, in their discussion of cooperative inter-organizational relations (IOR’s) Ring and Van de Ven (1994), suggest that the success of an IOR is linked to assessments made by partners based on equity or fairness, while in their 1992 paper, they declare trust to be mixture of two following elements;

- 1) The confidence or predictability in one’s expectations , and,
- 2) The confidence of the other’s goodwill (Ring and Van de Ven, 1992, 488)

There is a substantial literature in trust studies which emphasises the moral obligations that come with accepting trust (Hosmer, 1995). Accepting trust was accepting ‘duties (which) clearly go beyond a negative promise not to harm the interests of the other party; they seem to provide a positive guarantee that the rights and interests of the other party will be included in the final outcome’ (Hosmer, 1995, 392). Hosmer’s definition of trust underlines these moral obligations and duties towards others;

‘Trust is the reliance by one person, group or firm upon a voluntarily accepted duty on the part of another person, group or firm, to recognise and protect the rights and interests of all others engaged in a joint endeavour or economic exchange’ (Hosmer, 1995, 393).

This convergence of interests stops short of a rigid ‘no self-interest’ rule and definitions of this kind exhort the trustee to be helpful, honest, loyal, fair, beneficial etc. The problem is: can one square benevolence and goodwill with self-interest? Hosmer proposes that in order to define this ‘good’ man or woman for whom ‘voluntary disinterestedness’ is a moral duty, one should look at how ethical terms such as good and fair are defined in moral philosophy. He briefly summarizes the historical development of ten ethical principles (see chapter 5 above) ranging from Protogoras’ injunction to look after one’s interests in view of the long term, the personal virtues of Plato and Aristotle, the government principles of Hobbes and Locke, the utilitarian benefits of Bentham and Mills, to the distributive justice of Rawls and the social contract of Nozick. He summarises by saying that the ‘good’ man or woman ‘should act not for his short term gain only but for a mixture of that gain’ with others. The only exception to the denial of self-interest in over two thousand years of moral

philosophy is the economic efficiency of Adam Smith where individual actions lead, through the invisible hand, to an ultimate net benefit to the society. With the paradox that individual actions would lead to the erosion of the trust necessary to the creation of wealth and well-being. For Hosmer (1995, p398), trust is the result of the ‘proper mixture of other interested and self-interested behaviour on the part of all who employ that approach’.

There are several problems with this approach, namely the moral weight put on each individual to respect the trust of others (and everyone has their price according to Williamson). Shared moral values, culturally defined notions of what is right and wrong, cannot be an efficient way to develop trust between people from different cultural backgrounds, or who share no particular objectives beyond their immediate business goals. Trust based uniquely on morality would exclude the gradual step-by-step approach discussed in the following section. It would equally exclude many cross border and cross cultural business cooperation and joint ventures which, although fraught with difficulties, do work more than occasionally. Relying on common socialisation and generalized morality also falls into what Granovetter (1985) called the trap of an over-socialised conception of social interaction, just as relying uniquely on the rational choice model leads us to an under-socialised conception of trust. In both extremes the crucial aspect of agency is lost: actors *decide* whether to trust or not (no choice, no decision, no trust). It also neglects the fact that social conflict may be as common as social harmony. Several writers have moved away from this rather simplistic hope of trust based on moral duty.

Authors such as Granovetter (1985) and Fukuyama (1995), set their sights a little lower by seeing trust relations as embedded in particular social contexts. Common values and norms are developed inside particular relationships or contexts (family and clan for Fukuyama), where trust is developed in an incremental manner and common values emerge. Bradach and Eccles (1989) see trust as developing in a particular ‘community of shared values’ such as in a particular country, network or industrial district. I have examined the idea of the creation of local norms in chapter 7 above and the theme is a recurrent one in the district literature concerning trust. Bell et al. (2009) for example refer to inter-organizational decision making in clusters as being based on relational norms which they define as implicit rules and understandings tied to specific circumstances. Exchange governance in the cluster is based on a ‘relational macro-culture of shared values of forbearance, co-operation and bilateralism across organizations within a cluster’ (op. cit.,

628). When examining the question of creating trust in developing and emerging economies, Humphrey and Schmitz (1998) remark that one of the problems facing former communist economies is precisely the lack of implicit rules and norms while, under the former regime, beating the system and evading the rules was considered a virtue.

II.3b: Common Cognitions or Trust as Form of Natural Attitude.

Common expectations structure our behaviour by defining what is normal and predictable. All social interactions are shaped by interpretive frameworks or situational definitions which agents will mobilise during encounters (Murphy, 2006). Trustors seek to interact with others in a normal and appropriate way. Trusting behaviour is taken for granted because it is 'literally unthinkable to act otherwise' (Zucker, 1986, 58). This 'taking things for granted' reduces complexity for the actor because the rule or convention is recognisable as a 'systematic solution to a problem' (Gomez, 1995, 146).

The conventionist school (Gomez, 1995, 1997, Gomez and Jones 2000) re-joins the institutional approach by calling this natural attitude a convention which is an;

'implicit acceptance of rules of thought or conduct which are constructed socially and show individuals how to behave in given situations', (Gomez, 1995, 139).

The impossibility of calculating everything forces people to adopt 'shortcuts', simple rules of thumb that allows them to consider trust as being 'taken for granted'. A simple heuristic proposed in industrial district literature is that of trust 'as a form of natural attitude'. Trust is 'just the way we do business here' (manager from Salling furniture district in west Denmark quoted in Lorenzen, 1998, 17). For example, Bellandi, (2002) maintains that trust is a public good or a 'societal orientation', a part of the 'deep structure' of the district and as such, supports the building of reciprocal trust between partners.

The convention or rule is not adopted blindly but through a process of rational copying. When a convention is perceived to have been adopted by a significant proportion of a particular population (bar-turners in our case), this will inform the actor 'of the generally shared behaviour and therefore reassure the individual's behaviour in terms of evaluation criteria' (Gomez, 1995, 143). The convention is the 'a crystallisation of mimetic behaviour.

The solution it proposes is not, in itself good, but good enough if a large enough number of the population share it' (Gomez, 1995, 159).

This natural attitude provides the basis for 'community generated' interpersonal trust (De Propriis and Lazzerati, 2007, Dei Ottati, 2002). A trust that Amin (1999, 393) describes as 'a broader communitarian ideology of co-operation and consensus'. Thus, a convention bridges the gap between 'the unfettered free will of calculating individuals and the social determinism of structuralist perspectives' (Gomez and Jones, 2000, 706). Institutions and conventions are not outside forces to which actors defer, but rather represent the socially constructed framework inside which calculating agents proceed (Gomez, 1995, Möllering, 2006).

The general expectation 'of the persistence of the natural and social order' (Barber, 1983 in Lane, 1998) is the basis of trust in many social theories. Only when events differ sharply from the normal do they draw our attention. Garfinkel (1967, in Lane, 1998), provides the link between this background, unthinking trusting (mental habits), and what he terms 'constitutive expectations' which are developed in specific social contexts and specific meaning systems. These two types of expectations are complementary. Strong background expectations, what Bellandi (2002) labels 'deep structure', diminish the need for local specific constitutive expectations (Lane, 1998). One can see the application of Garfinkel's expectancy theory in, for example, Japanese society where, in an ethnically unified society, strongly socialised norms dictate normal and acceptable behaviour, thus limiting the necessity for actors to generate their own local meaning systems. Actors, then, seek 'to interact from interchangeable standpoints and reciprocal perspectives' (Möllering, 2006, 56).

This is not to say that actors do not challenge and question their real world. They have a capacity to accept events as taken for granted while others may be problematic and attract attention. Members of the same culture and same social group (e.g. an industrial district) will more easily agree on a common definition of equity or fairness, creating, therefore, a common basis for evaluating behaviour and decisions to continue or to break the relationship.

Garfinkel's (1963) institutional approach sees these 'basic rules' of the everyday organization and functioning of society as based on 'three expectancies:

- a) the rules frame a set of required alternative moves,
- b) the rules are binding to all players,
- c) other players expect a) and b).’

From a conventionist point of view, the rule or convention is accepted because the majority of the population has accepted it, and when the actor is convinced that it is shared among the majority, (Gomez, 1997). The problem of trust however intervenes yet again when the actor cannot be sure that every partner knows or accepts the convention or rule. This doubt leads us directly back to social uncertainty, to the need for trust and possibly to distrust or wariness. The lack of doubt (central to the conventionist perspective) leads to naive trust.

Local norms are not static but evolve over time. The structure of the district may evolve and norms be modified as some actors impose new rules in the transition from relationship based exchanges arm’s length exchanges as Farrell and Knight (2003) showed in their analysis of the Bologna meat packaging machine district.

‘As the bargaining power of large firms increased, they have changed the terms of exchange, abandoning previously held informal norms and imposing increasingly hierarchal – and unequal – terms of exchange on their subcontractors’ (p558).

Boschma and Lambooy (2002) also maintain that a shift from towards hierarchical relations between firms increases dependency and correspondently diminishes inter-firm trust. The increased power of one partner does not necessarily mean reduced trust as the literature on the ‘Toyota production model’ demonstrates (see Dyer and Singh, 1998, Dyer and Ouchi, 1993, Dyer and Chu, 2000, 2003). Barabel et al. (2007), believe that the trajectory of the Arve Valley ‘is characterized by the trust based relationships between leader-firms and their main suppliers’ (p616).

This brings me to another definition of trust in a neo-institutional framework, that a person will trust someone whom they expect to respect the ‘rules of the game’. And how do people know that the person will respect the rules? Trust is the answer to this question will be dealt with in chapter8 covering trust as process. ‘Trust in the natural attitude means interacting with others on the basis that everyone knows and accepts basic rules for

interaction' (Möllering, 2006, 58). There are, for Garfinkel, no universal basic rules, this is why trust is difficult across different cultures, but there are specific basic rules in a given context.

One assumes that other people's view of reality is not too different from their own. One's everyday world is largely a 'world known in common with others' (Schutz, 1970, in Möllering, 2006). 'This leads individuals to conceiving a fairly stable subjective reality in which they experience and conduct their daily affairs without questioning this reality' (Möllering, 2006, 56).

The two types of expectations in Garfinkel's theory are an important step to allowing individuals to create trust beyond groups, families and clans etc. (what Zucker, 1987, describes as characteristic based trust, or ascribed trust). This impersonal form of trust is tied to social structures where generalised rules permit going beyond inter-personal bonds and specific exchanges and trust becomes institutionalised, ie. it becomes 'part of the external world known in common' (Zucker, 1986, 63). These acknowledged structures may be internationally accepted certificates of quality control, membership of professional organizations, or even intermediary mechanisms such as insurance or banking systems. Structures that will protect the interests of both parties and both parties accept that these structures and mechanisms are socially legitimate.

II.3c: Trust from Isomorphism

Isomorphism is defined as, a constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions (DiMaggio and Powell, 1983).

In terms of trust, isomorphism means that certain actors trust each other because trusting behaviour has been proved to be the efficient behaviour in the past (Barney and Hansen, 1984). In other contexts distrustful or prudent behaviour may be more efficient (Gambetta, 1998).

The theory underlying competitive isomorphism assumes rational utility maximisers and/or disinterested evolutionary forces: neither of which leaves room for agency, which is a

central tenet of trust (the decision to trust or not). Coercive isomorphism seems to be more open and more relevant to our discussion of trust.

Coercive isomorphism stems from external pressure to conform in order to gain legitimacy. If trusting and cooperative behaviour is the norm, then legitimate actors trust and cooperate.

Mimicry (mimetic processes, DiMaggio and Powell, 1983, 151) is when actors consciously or unconsciously imitate another's behaviour, especially in situations of uncertainty or ambiguity. This copying may become detached from its utility; it becomes the 'thing to do' or the 'way to behave'. In terms of trust this may mean that actors, when deciding whether to trust or to honour trust, merely do what everyone else or a particular referent does.

Normative isomorphism is the idea that socialisation instils particular cognitive bases and legitimations in the actors. This mechanism is close to the natural attitude discussed above. Role expectations go hand in hand with the actors self-image or identity. Isomorphism here means that actors behave in the same recognized, legitimate way. Möllering (2006) sees this type of behaviour as a basis for trust because socialised actors would place or honour trust in a given situation. To do otherwise would mean going against their own behaviour or against their subjective reality.

These different types of isomorphism provide conceivable alternatives to calculated trust because external pressure, co-opting and socialisation influence action independently of utility to the actor (Möllering, 2006). That is not to say that rationality has no place in institutional accounts of trust. It may be very rational to search for legitimacy, and to avoid sanctions for example. Yet the motivation to trust comes more from the context of the exchange than from the perceived trustworthiness of the exchange partner. 'Compliance with institutions emerges as a motivation for trust that is based on 'taken-for-grantedness' and independent of utility' (Möllering, 2006, 65). Communal orientations and cooperative strategies were shown to be successful strategies in northern and central medieval Italy. In the south, divide and rule policies imposed by absent monarchs meant that 'beggar thy neighbour' was the legitimate strategy: vicious and virtuous circles (Putnam, 1993).

Barabel et al. (2007) describe isomorphic forces in the Arve Valley with relation to client supplier relationships; 'When our major customers such as Fiat, GE or Renault tell us 'You

must delocalise (sic) to India', we either follow their instructions or risk losing our contracts in France in the mid-term', and physical proximity 'if we saw a competitor with a new machine we asked ourselves why we hadn't got one' (Arve Valley CEO, Barabel et al. 2007, 610).

II.3d: Rules and Routines

Although laws and other social institutions are viewed as mechanisms to coordinate expectations which make the risk of trust more bearable (Lane, 1998, 13), the actual use of legal sanctions is seen as incompatible with a trusting relationship. Written, explicit rules go beyond merely civil and commercial law. Trade associations, technical laws and standards, financial and educational systems and many other elements of a countries institutional system support trust-based interactions (Lane and Bachmann, 1996, Deakin and Wilkinson, 1998). The main question for Lane and Bachmann (1996), is not so much the strength of a particular legal system, or the quality of a dentist's diploma, but rather that these institutions embody systems of rules for interactions which will constrain behaviour in a socially acceptable way. Rules and regulations reduce complexity to a level where trust can come into play. Legal norms and formal rules do not merely impose external constraints to which agents respond in a rational manner, they play an enabling role which open up certain possibilities for cooperation (Deakin and Wilkinson, 1998).

Do contracts enhance inter-organizational trust? They are not a panacea according to Nooteboom (2002), who sees the following problems in contracts which limit their effectiveness:

- a) they are expensive to put into place. Therefore, like the incentive and penalty system discussed in the chapter on trust as reason, they can only be a second best alternative to trust,
- b) it may be difficult for one contractor to monitor the performance and compliance of the other through problems of information asymmetry,
- c) they are ultimately impossible because they cannot cover all future contingencies, and,

- d) detailed contracts express distrust and raise reciprocal suspicion leading to a vicious circle of regulation and distrust, this negative spiral obstructs the build-up of trust.

Equally, in their detailed examination of contracts and trust and distrust Sitkin and Roth (1993, 376), listed three reasons why one shouldn't trust contracts to create trust:

- a) legalistic remedies can erode inter-personal bonds by replacing reliance on goodwill with objective formal requirements,
- b) legal intervention which creates distance between parties, is hostile to the tacit or implicit elements that underlie interpersonal relationships, and
- c) legal procedures can only address a particular aspect of a dispute, and cannot solve the wider problem of 'value incongruence' (in other words, bad faith).

Legal contracts may enhance competence trust, or expectations based on performance (Sako, 1998), but have the dubious property of increasing distrust rather than replacing it. In their study of the construction of trust among 400 farmers and 20 cheese makers, Torre and Chia, (2001), found that interpersonal trust preceded contracts as the basis for trust in the coordination process of deciding on AOC cheese criteria. According to Barabel et al. (2007) there has been a marked tendency over recent years towards a formalisation of contracts in the Arve Valley where instead of a simple handshake to seal a deal, 'orders are increasingly detailed and precisely drafted', (p609).

I shall save the last word on the relationship between contracts and trust to Ring and Van de Ven (1994), who consider formalised contracts and exogenous safeguards as 'life-jackets' which are to be used if trust fails.

II.3e: Roles and Routines

Why would people trust a dentist with whom they have had no previous contacts nor recommendations from a trusted friend? Do people trust the individual or the education system that trained them? This is a special kind of 'rapid' trust where trust is attributed not on an interpersonal level (we don't know the person), nor on a system or general level, but one trusts someone who incarnates and embodies the system (Lane, 1998, Möllering,

2006). This trust is similar to the 'natural' trust outlined above. In the natural order of things, dentists are highly trained and competent, therefore one can trust them. Knowledge asymmetries between client and expert may be so large that the client has no choice, in the beginning, but to trust the expert cautioned by, in our example, an education system. The individuals, by playing their roles within a scripted drama which is acknowledged by all the actors, participate in a social world, internalise their roles, which enables this same world to become subjectively real to them (Berger and Luckman, 1966 in Möllering, 2006). Role-playing (manager, teacher, dentist, doctor, etc.) contributes to the 'trust as taken for granted' approach, because expectations of future actions are based on these pre-defined roles. The expectations are stable, more standardised and more linked to competence than personalities.

Routines are regular and habitually performed actions and procedures (Nelson and Winter, 1982). They form the third heuristic alongside rules and roles in generating trust. They may or may not be supported by rules and roles but, according to Möllering (2006, 69), 'they are institutions in the sense that they are typified, objectivated and legitimated, (and), not senseless repetitions'. Routines imply predictability and therefore trust, which is all well and good, but the problem of trust springs partly from the possibility that the routine may not be followed, which gives rise to the advantages gained by untrustworthy people who break the rules.

There is an important difference between the rational models of trust exposed in chapter 6, where predictability indicates trustworthiness in the individual, and the neo-institutional view which underlines the non-calculativeness, non-questioning, view of (questionable) routines, rules and procedures. Trusting itself is part of the procedure. As Möllering notes, parents, when they send their children to school in the morning, trust in bus drivers, lollipop men and women, teachers, cooks etc. to fulfil their roles. Parents do not calculate the possibility of deviation from the norm every morning.

'Rules, roles and routines are bases for trust in so far as they represent taken-for-granted expectations that give meaning to, but cannot guarantee their fulfilment in action' (Möllering, 2006). Just as with rational models of trust discussed above, institutions cannot completely explain trust. Another problem looms into view. Trust cannot be explained away solely through the blind adherence of actors to institutions. Actors question,

challenge and cheat. If one trusts on the basis of institutions, do people trust institutions? Does one trust others to adhere to institutions?

Institutional-based trust has the advantage of permitting a person to trust another without establishing process-based trust using incremental steps to validate the others trustworthiness (and process-based trust may be rather difficult to do through gradual interactions with an unknown dentist when you have a severe toothache late on a Sunday night). This makes institutions both carriers (or frameworks) and objects of trust. One must distinguish between the influence that institutions have on the trustee-trustor relationship and the trust that a trustee may have or not, in the institutions.

But how can one trust abstract systems such as paper money? Luhmann (1979) sees trust in systems as building up through positive experiences. The system is also, for Luhmann, has controls in place which are maintained by experts. But can the experts be trusted? Arguably, one of the major threats of economic meltdown in late 2008 came from the realisation that many actors in the western banking industry (and elsewhere) didn't fully understand the financial system they were working in. And so the spiral of distrust can continue as the trustor doubts the goodwill and competence of those in charge of maintaining the system. Möllering (2006, 72) sees the key question as not the choice between trusting and not trusting,

‘but between either accepting a given level of assurance or looking for further safeguards and controls. System trust (and also personal trust) fails or cannot even be said to exist when this state of suspending doubt is not reached’.

Trust in an institution means confidence in the institutions reliable functioning, but has to be based mainly on trust in the visible controls or ‘representative performances’ rather than on the internal workings of the system as a whole. (Möllering, 2006, 74)

Summary to Part 3: Routine, Roles and Institutions in Industrial Districts

An institutional approach is central to Becattini's (1991, 2002) definition of industrial districts in their Italianate version at least. Economic exchanges are rooted in strong social networks and an entrepreneurial culture where 'a community of people is bound together by a homogenous system of values and views (values, behaviours, expectations, language dialect etc.)' (Paniccia, 1998, 669). To this central tenet of the industrial district model, I should add Putnam's (1993), historically path dependent game theoretical approach where actors in industrial districts have a long historical tendency to trust and cooperate, a strategy which has delivered positive outcomes. All in all, trust generates trust because honouring trust bestowed was the natural way to do things¹⁵.

The strong institutional setting provides the rules of the game which are internalised and then become the normal way to do business (Harrison, 1992). Becattini considered Italian industrial districts to be a particular socio-economic product of certain Italian regions. Regions which are richly endowed with social capital, where Putnam, (1993) found such strong horizontal, communitarian links and traditional cooperative norms as described above. These community assets are highly immobile (Molina-Morales and Martinez-Fernandez, 2003).

If institutions are sources, carriers and objects of trust, then the next problem becomes immediately apparent. A problem which neo-institutionalism only partially explains. How do actors achieve the natural attitude of trusting, the assumption of good faith, and the acceptance of normality? 'Routine trust' asks the critical question of where routines come from (Bachmann and Inkpen, 2011). In a globalised economy with many different notions of fairness, equity etc. how can actors from very different institutional backgrounds begin to trust each other? The answer may lie in the slow step by step building up of trust that I shall examine in the following section.

¹⁵ Putnam wasn't altogether happy with a path dependency explanation, but found that the gap in historical records between the fall of the Roman Empire and the rise of medieval cities in central and northern Italy prevented him from investigating further the origins of cooperative behaviour. This led him to surmise that cooperation was born as the only alternative to anarchy.

Part 4

Trust as Reflexivity

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Part 4: Trust as Reflexivity

'Trust arrives on foot and flees on horseback': French proverb.

Introduction:

In the preceding sections I have examined rationality or rational choice models and sociological approaches to building trust. Each has been found wanting. Each has been incapable of explaining trust completely. The former because of the utilitarian maximising axiom which orientates decision making in a particular direction but may lead to sub-optimal and therefore irrational results, and the latter because it cannot account for rapid, assumed trust beyond a small circle of family, tribes and clans. Both rational and institutional approaches depend on the actors being in possession of a certain number of factors. Both present a central problem: that of being incapable of explaining why actors who are not in possession of a minimum of information (possible pay-offs or the assurance of adherence to common rules for example), take a first step to trust. 'Any trust that goes against, overlooks or ignores rational or institutional good reasons would have to be considered 'blind' trust' (Möllering, 2006, 80).

In the absence of any 'givens', how then do actors trust? Or to be more precise, how do actors learn to trust. In this section, I shall examine a less static approach to trust, that of trust coming about through interactions rather than being an issue of a given situation. The question of how trust can be built between agents who do not possess enough information about assumed pay-offs or cannot assume that the other plays the game to the same rules is then discussed. I shall examine trust under its most intuitive aspect: that of building trust in a step by step manner through repeated interactions and communication.

That trust is the result of interactions is, in itself, a fairly commonplace occurrence, as the proverb above shows. Part of the confusion in trust studies literature comes from the fact that trust is an antecedent, a mediator and the outcome of repeated interactions, (Wood and Barr, 2005). Many authors see trust as a result of interactions, with the proviso that both parties agree to norms of equity (Ring and Van de Ven, 1992). But this leads back to a value laden vocabulary where the development of trust relies on both partners agreeing to what is 'fair'.

The process based approach to trust gives a large place to the agency of the actors concerned. In the two papers quoted directly above the actors are not just passive entities in a given context, making trust decisions according to calculations or behavioural norms. They are active in creating trust through interaction and communication. It is they who are deciding what is 'fair' and 'unfair' during their relationships, it is the actors who shape and sustain trust in the process. Actors never fully control the process, as partners remain necessarily opaque, but through 'signals, communication, interaction and interpretation' (Möllering, 2006, 79), they may create trust in a continuous learning process.

In this chapter I shall pay particular attention to the first step on the path to creating trust ; the curious notion of 'blind' trust and then proceed to examining how this seed of trust grows and develops and how it relates to the idea of reflexive familiarization.

II.4a: 'Blind' Trust.

Rational choice theories and, in certain ways, neo-institutionalist theories, labour under a particular problem in that they can predict that under certain conditions actors will not trust, and then realise empirically that trust does occur in these situations (Möllering, 2006). This type of trust is labelled 'blind' trust and is often the first seemingly unexplainable step on the path to creating trust. (Möllering believes that all trust is, to a certain extent, 'blind' but I will come back to this point later when discussing the concept of suspension).

To put it simply, actors sometimes trust when they seem to lack the solid bases upon which they could make a decision to trust. From a rational choice perspective, actors may act in non-rational ways that bring about trust growth and lead to optimal outcomes. Moreover, unintentional acts or coincidences may trigger the positive spiral of trust. In Axelrod's computer tournament mentioned in chapter 6, actors can trigger positive trusting behaviour simply by being nice in the opening round. Equally, an action, although not intending to signal trusting behaviour or even trustworthiness, may be interpreted as such and lead to a self-reinforcing spiral of trust creation. In this light, Kramer's (2009) thesis that humans are basically trusting social animals (Kramer, after the financial crisis of 2008/2009, believes that people trust too much), may go some way to explaining why one may

sometimes almost inadvertently send trust signals and interpret some signals as being signs of a willingness to trust and to be trusted.

Hardin (1992) advances the idea that actors may feign trust as a strategy which permits the actors to behave 'as-if' they trusted, thus allowing the possibility of the building up of trust. By behaving 'as-if' we trust, Hardin offers the possibility that actors enter into the game to find out whether the other wishes to begin a cooperative relationship. It is however difficult to determine how much irrationality the rational choice models allow. 'As-if' trust remains at least partially irrational. Worse, this line of reasoning finishes in the difficult position of discussing irrational behaviour in a rational model.

Luhmann (1979) argues that any sense of rationality in trust should be considered in terms of its functionality in helping the actor reduce social complexity. In other words, trust is a rational strategy because it allows actors to deal with uncertainty. Taking the first step (i.e. trusting by putting oneself at risk with positive expectations as to outcomes) would therefore enable actors to reduce uncertainty whilst waiting for the partner to respond positively. Trust is therefore rational in the sense that it allows the system to work. 'Trust can be functional and system rational by not being rational itself' (Möllering, 2006, 83). Trust is not always system functional. It can be dysfunctional when invested in the wrong people for the wrong reasons. This leads to the abuse of trust and loss for one of the partners. Distrust of the trustworthy also leads to sub-optimal outcomes and, as mentioned above, trust can be dysfunctional in such situations as the mafia, where strong intra-group trust may lead to some very negative outcomes for society.

'Blind' trust is not always dysfunctional, even though it may be reached through irrational decision making. It enables actors to reach trust in situations where sufficient information is unavailable. Human beings are social animals, our survival depends on our capacity to interact and cooperate with each other in order to reach collective goals which encapsulate individual's own goals therefore people may decide to trust on unsafe grounds (Kramer, 2009).

All in all, there exists the possibility that 'blind' trust may emerge as a starting point of a trust building process independent of solid rational and institutional reasons. Despite our difficulty in finding a starting point, what is important is that there *is* a starting point and

that the process does get started. In this more dynamic view of trust, if trust reduces social complexity, then it doesn't have to reduce all complexity immediately. Whatever the initial starting point, it is the capacity of learning which is central to process based trust (Nooteboom, 2002).

II.4b: Learning to Trust.

The temporary 'as-if' strategy of Hardin (1992), where actors feign trust in order to build up experiences and continuously re-evaluate the other's trustworthiness, captures the idea that trust decisions maybe extrapolated from past experiences with a particular partner in a particular context.

In searching to explain the gradualness of trust, Zand (1972) uses information disclosure, acceptance of influence and the exercise of control, which all have feedback mechanisms towards trust generation. Any given level of trust at the beginning of the relationship will influence the amount of information A is willing to disclose, the amount of influence they will accept and the amount of control they are willing to cede to B (ie. vulnerability). B will interpret these actions as positive signs of trustworthiness and act accordingly, disclosing information, accepting A's influence and control etc. etc. In this way actors enter into a positive spiral of trust or a negative spiral of distrust. Zand's model shows how trust can be built up or destroyed, but it also underlines the importance of the first step in creating trust.

A virtuous circle of trust building exchanges may occur as a result of the social dimension of repeated long term exchanges. I have already quoted MacNeil's (1980) assertion that repeated exchanges build up 'a micro society'. Blau, (1964), Perrone et al. (2003), and Uzzi and Gillespie (2002), all remark on a key concept in the process of interactive trust building when they maintain that repeated exchanges give rise to feelings of obligation, gratitude, trust and expectations of reciprocity. In his paper on the Baden-Wurttemberg industrial district, Staber (1998), seems to favour an exchange and process approach to trust creation, noting that trust takes time to develop and that firms prefer to work with other firms they already know in order to reduce uncertainty.

Management and organizational theorists tend to avoid venturing into domains such as affect and emotions when discussing exchanges but several sociologists have highlighted the importance of personal bonds developing during repeated exchanges. Both Lorenz, (1988) and Uzzi (1997) examine the strength of personal ties that evolve in network exchanges, where, for the former, exchange partners and sub-contractors are ‘neither friends nor strangers’, and for the later, supplier-client relationships in the New York textile industry can be situated along a continuum between ‘arms-length’ (ie. market) and ‘embedded’ ties (ie. close personal relationships where economic action depends, in part at least, on ‘cognition, social structure, institutions and culture’, *ibid.*, 36). Perrone et al. (2003), also examine the duality of, on the one hand, the importance of personal relationships between exchange partners and possibly conflicting role expectations linked to an actor’s position in an organization. Trust creation, they imply, stems from the capacity of the trustor (a seller in this case) being able to recognise trustworthiness in the *person*, rather than their role as purchaser.

Although not strictly speaking a paper on trust or industrial districts, but rather an examination of the dyad level of inter-firm relationships, the model (figure 2.4.1 below) proposed by Ring and Van de Ven (1994) on the development of cooperative inter-organizational relationships, allows us to examine some key aspects of learning and trust building during on-going exchanges. Trust in this model is built up in stages of commitments, executions and negotiations which are mediated continuously according to the criteria of efficiency and equity. Commitments are negotiated and executed. Results are included in a new round of negotiations and commitments etc. Part of the interest of this model lies in subtle balance of formal and informal, personal and organizational, mechanisms at work. As the inter-organization relationship progresses, actors move from formal role playing, bargaining and contracting to more inter-personal relationships. They develop joint expectations through informal sense-making, which allows a meeting of the minds and empathy with the other person’s point of view.

Figure 2.8.1: Process framework of the development of cooperative Inter-organizational relationships, (Ring and Van de Ven, 1994)

This sense making allows them ‘to validate or enact a compatible set of perceptions’ (ibid. 100). Sense-making also enables actors to establish psychological contracts which are unwritten agreements concerning the parties’ respective obligations and prerogatives.

One aspect that attracts attention in the model is the oscillation between role playing, where a person may represent the organization, and interpersonal interactions which are based on a ‘true’ self. Ring and Van de Ven, drawing on the work of Gabarro (1987) and Guitot (1977), assume that role relationships and inter-personal relationships will not be identical (ibid. 95). Through a process of personal socialisation and norm formation, actors create social links, and cast off the organizational roles imposed by one’s position in the hierarchy, and indeed, the role imposed by one’s hierarchy. This process creates social obligations by embedding the professional relationship in a personal and social context (see Uzzi, 1997).

Although they do not declare it explicitly, trust, as seen by Ring and Van de Ven, is an individual, inter-personal level phenomenon. As noted above, it is individuals who decide to trust or not, even if they are acting in an organizational context. The authors assume that trust is weak or non-existent at the beginning of interactions between the two organizations and is built up slowly. It is an antecedent and a result of interactions. Actors advancing through this circular process get to know each other at both an organizational and personal level. Developing trust relies on the creation of a common world view which includes agreeing on what is fair to both parties. Finally, Ring and Van de Ven assume that the relationship builds up over time and becomes more robust and stable. They do not assume that this process will continue ad infinitum. Actors may change, expectations may no longer coincide leading to a diminution of trust and the relationship may be terminated.

II.4c: The Role of the Gift in Building Trust

In this sub-chapter I shall examine how gift giving creates trust in embedded relations in networks and by extension, industrial districts. Gift giving has been largely excluded from the analysis of modern capitalism. Gifts, rather like the communitarian model described above, are considered part of archaic or primitive social systems; throwbacks to pre-industrial, pre-market epochs. They play no part in our modern industrial economies. Neo-liberal economics based on rational utilitarian maximisers has no place for gift giving and has relegated this ancient and deeply rooted social practice either to the family and private realm, or dismisses it entirely through the ideology of the purely altruistic gift.

‘Once the radical disjuncture between the logic of egoism and the logic of altruism has been established, the gift becomes unthinkable for modern thinkers’ (Adloff, 2006, 416).

If there is a lesson to be learnt from Mauss’ (1954: 1990) work on the role of gift giving and counter giving in society, it is that no gift is based on purely altruistic motives. Even an anonymous and seemingly altruistic gift such as giving blood (to complete strangers via an impersonal collection and distribution system) can be interpreted, at least partly, as utilitarian because the donor may give to maintain the system in order to be able receive in the future (Pinker, 2006).

Modern economic life is never simply instrumental; it is coded and framed by deep structures of social and cultural life. The gift *does* exist in commercial exchanges (see Sako, 1988, Ferrary, 2003). In the Japanese automobile industry, for example, Toyota has gained a reputation as a trustworthy partner because of its emphasis on long term relationships with suppliers and its reluctance to take advantage of partners' vulnerability. Toyota frequently uses gifts (technical and managerial skills) to cement its relationships with suppliers (Dyer and Chu, 2000, 2003). In his in-depth study of inter-firm relationships in the New York garment district, Uzzi (1997, 47), underlines the social aspect of gift-giving in embedded ties, quoting a manager mentioning that he would make gifts (in terms of according delays or helping with investments) but 'never to a stranger'. It should come as no surprise then that I have found examples of gift-giving in the tight knit networks in the Arve valley.

Gift-giving cannot to be relegated to a purely altruistic form of behaviour and therefore excluded from all exchange relationships (Ferrary, 2003). It is not a 'left-over' from ancient times. It fulfils a primary social role in creating and maintaining social bonds (Cheal, 1988, Weinbrun, 2006). These social bonds are not an end in themselves; they are created and used for many different purposes; for the exchange and appropriation of economic, symbolic and social benefits.

The relationship between giver and receiver is never simple (Douglas, 1990). As the Guinean proverb 'the hand that receives is always under the hand that gives', demonstrates, the act of giving places the receiver in a position of obligation. The gift demands a counter-gift. Reciprocating the gift releases the receiver from the obligation created and, at the same time creates (or maintains) a social bond (Mauss, 1954: 1990). The initial gift represents an investment in a relationship. The gift can be accepted or refused. By refusing a gift the receiver may indicate the end of a relationship or the impossibility of starting one.

Gift-giving and counter giving is necessarily diachronous and rarely like for like. It involves a trust inducing time lapse. Initially it is an open-ended investment that demands reciprocity. The response (positive or negative) is the first step on the path to creating (or not) interpersonal trust. This expectation of reciprocity varies in strength according to the

different cultural and institutional arrangements prevalent in that particular context at that particular moment (see Lane and Bachmann, 1996). This expectation of reciprocity is the first step on the path to process-based inter-personal trust creation (Zucker, 1986¹⁶). Gifts are used as ‘credit-slips’ (Coleman, 1990, Ferrary, 2003); they are favours that can be called upon in the future. In this way gifts create trust, group identity, and ultimately, social capital.

II.4d: The Riddle of Swift Trust

A process based approach to trust takes time and necessitates efforts on behalf of both actors. If trust is a positive phenomenon which will reduce transaction costs, facilitate information transfer etc., then obviously, the faster it is produced, the earlier the parties benefit from its positive results. But what of situations where actors, come together on projects for example, and must work under time constraints with others that they do not know from past experience? How can they produce trust when they don’t have the luxury of spending time on building trust by disclosing information, creating shared mental modes as in the models of Zand and Ring and Van de Ven discussed above? Many short term projects and temporary missions demand that actors create ‘swift’ trust largely because they have no choice. Drawing on the work of Goodman and Goodman (1976), Meyerson, Weick and Kramer (1996), Möllering (2006), examines the problems related to this necessity of creating trust rapidly in ‘temporary systems’ where workers with no or little prior knowledge of their co-workers must complete a complex and non-routine task to a tight deadline. Examples of temporary systems are film crews, research and development projects, fire-fighters, cockpit crews in planes etc. Rather like specialised firms in industrial districts they need each other to complete the task in hand but there is no time to start trusting with low risk level exchanges and building up the trust necessary to the smooth completion of the task.

‘To trust and to be trustworthy, within the limits of a temporary system, means that people have to wade in on trust rather than wait while experience gradually shows who can be trusted and with what: trust must be conferred presumptively or *ex ante*’ (Meyerson et al. 1996, 418).

¹⁶ Note that Zucker, while acknowledging initial trust exchanges are similar to gift exchanges, sees process based trust to be typical of traditional societies. The gift is again excluded from analysis.

Workers in this context must deal above all with the problem of interdependency. Their reputation, success and future income stream often depend on the actions and reactions of the others in the group. This interdependence could provoke wariness (but the context demands a rapid result that wariness would slow down), but seems to lay the ground for trust and trusting becomes a self-fulfilling prophecy (Meyerson et al. 1996).

Trust is generated rapidly in temporary systems through three mechanisms. Firstly, the threat of reputation destruction resulting from bad behaviour. The weak and strong ties in overlapping networks act as pipelines which channel information about an actor's past behaviour. Secondly, a good reputation leads to more work in the future. Erratic, unprofessional behaviour would have the effect of exclusion from the networks and a reduction in future work possibilities (the 'difficult actor' syndrome). The third reason is role clarity. People in temporary systems attach precise, well-defined roles to other participants and these labels imply predictability. Expectations are more 'stable, less capricious, more standardised, and defined more in terms of tasks and specialities than personalities' (Meyerson et al., 1996, 421). Categories serve as heuristics and are rapidly assigned to persons to create a level of starting trust which may begin at a higher level than the situations described above. As so often in trust studies, the context of the situation dictates what may or may not be possible in terms of trust. Meyerson and her colleagues conclude by noting that swift trust in temporary systems is largely a function of the degree of interdependence in the system and this, until a certain point where too much interdependency generates excess and unacceptable vulnerability and ultimately inhibits action. It is mitigated by the size of the labour pool and background expectancies, categorical assumptions and interpretive frames. They compare this close relation between structure, system and trust to Lehmann's remark that systems require trust as an input condition in order to permit actors to take the following step of proposing 'blind' trust as a kicking off point for process based trust creation.

Although industrial districts are not temporary systems by any stretch of the imagination, roles in industrial districts are clear and precise because of high levels of firm specialisation. To take one example from the many that are described in the industrial district literature, in Uzzi's 1997 paper on the textile networks in New York, he details (p40) the roles the different actors in the district. Clothes may move through different steps

where 8 different specialists may weave, dry, design, cut, trim and sew etc. Each has a particular well defined role to play and expectations are based on these roles. With reference to the preceding section, it is in the natural order of things that a cutter cuts and a designer designs. These people know and do their job. Ignoring consciously or unconsciously defined roles as is the case with idiosyncratic and eccentric behaviour may diminish trust (Meyerson et al., 1996).

II.4e: Familiarity and Familiarization.

Another approach to trust creation where none exists and actors are required to learn and gain experience is to examine trust through the lens of familiarity and familiarization. An approach which echoes that of Mahé de Boislandelle, (1996), Torrès, (2003), Torrès and Gueguen's, (2008), analysis of the effects of geographic proximities on managers perceptions and mental modes. These authors suggest that what is geographically proximate is trusted because it is familiar. In this context, trust is understood to be a matter of familiarity because it signifies a close relationship or a close acquaintance with people, artefacts, concepts, or emotions previously encountered (Gulati, 1995). Familiarity bears a close resemblance with the above discussion of routines and 'taken-for-granted' trust, but here I shall concentrate on how actors can gradually overcome distrust due to familiarity.

Objects which are regarded as familiar 'need no further investigation' (Schultz, 1970, in Möllering, 2006, 95). They are beyond question and can be taken for granted. A new object will be taken as familiar if it can be recognised as typical. According to Schultz, unfamiliarity need not necessarily imply distrust, as an actor can use their capacity for familiarization to increase familiarity when necessary. There is a fundamental difference between trust and familiarity. Familiarity is the condensation of past events, events which one assumes will not change and one can therefore extrapolate into the future. Trust goes beyond information already in hand and goes some way towards defining a possible future state (Möllering, 2006). Möllering goes further, maintaining that trust, in particular active trust, is a way of introducing familiarity into the future.

II.4f: Active Trust

No discussion of the antecedents of trust can avoid a key factor in trust, that of the notion of active trust (Giddens, 1990). The idea that trust needs to be worked upon. Giddens emphasises the need for actors to engage in deliberate commitments, they must play a role in creating trust and in the building of the conditions and institutions that help trust building.

In order to examine the structuration of active trust in industrial districts it will be useful to examine Sydow's (1998) structuration perspective on trust building, which involves actors developing interpretive schemes, resources and norms to which they refer to when engaging in trusting and trustworthy behaviour. Actors rely on these social structures of signification, domination and legitimation to create trust and to which further action will refer.

Sydow's model, inspired by Giddens' (1984) structuration theory, where structure is 'a medium and outcome of action' (Sydow, 1998, 36), theorizes inter-organizational trust as 'an outcome of the subtle and recursive interplay of action and structure' (Sydow, 1998, 32).

Sydow's model presents the inseparability and recursiveness of social structure and action in Giddens' three dimensions of the social. When Sydow (1998) applies his model to networks and cooperation between insurance brokers in Germany, he shows how brokers develop a rule of signification, that trust is useful and desirable, and how they go about reproducing this rule. Staber (2007) examines how a rule of distrust may have evolved in the Baden-Wurttemberg textile cluster during the latter part of the twentieth century.

Brokers also use trust relationships as resources for action and invest resources in such relationships. The dimension of legitimation entails actions which support the normative side of trust.

In Sydow's model, trust becomes a self-fulfilling prophecy. It takes the underlying, intentional; agent centred deliberate construction of trust, combines it with the emergence of the conditions for trust and at the same time examines the interplay between the two.

Figure 2.4.2 The constitution of trust in the light of duality and recursiveness
(Sydow, 1998, 40)

It is path dependent similar to the winning tit-for-tat strategy in Arrow's cooperative game, and the development of trust in late medieval Italy described above. Such a view implies that trust grows out of reflexive social practices which (re)produce trust and also change it over time. This approach can accommodate most of the ideas produced in this section, notably the creation of trust through social interaction, building up trust slowly and the role of familiarity and familiarization (Möllering, 2006).

Summary to Part 4

It should be clear from this chapter that trust is a matter of reflexivity and that it can be constructed by actors through repeated, open and communicative exchanges. If managed correctly the process then becomes a self-fulfilling upward spiral of trust creation because trust begets trust. This approach to trust creation has been extensively used in the literature on national or international alliances between firms where there are sufficient differences in national, organizational, or sector culture to make trust creation more difficult than in industrial districts (Ring and Van de Ven, 1994, Das and Teng, 2002, Inkpen and Currall, 2004, Marshall, Nguyen and Bryant, 2005).

In order to build trust, actors need to learn about each other's motivations and expectations. They need to develop empathy with the other partner (Nooteboom, 2002). Actors in industrial districts come from similar backgrounds and as discussed in chapter 4. Socialisation processes in the district lead them to develop similar world views and viewpoints. They therefore have less distance to leap in order to understand the other (district partner), as they have more cognitive proximity and therefore less to learn about the other. Trust creation is made easier because of this and is reinforced by repeated exchanges of intermediary goods and information in the district. As actors in industrial districts are present over many years and generations, they exchange over long periods, which gives time for trust to build up.

Indirectly Zucker (1986) echoes criticisms of communitarian models and industrial districts as being throwbacks to 'traditional societies', when she regards process based trust as being more likely in places where actors are socially and geographically proximate, thus facilitating the creation of trust.

Trust is to be found between reason, routine and reflexivity. All three elements are needed but none is sufficient in itself to explain why people trust. In our next chapter I shall attempt to define the central concept of this thesis: Möllering's concept of suspension, which is a direct descendant of the leap of faith of Lewis and Weigert (1986).

Part 5

Trust as a leap of faith

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Part 5 Trust as a leap of faith

Introduction

This section is entitled trust as a leap of faith rather than trust as suspension (Möllering, 2006) because it was Lewis and Weigert (1985) phrase that first drew my attention to the fundamental problem of trust; ‘trust is a leap of faith beyond that which experience and calculation would justify’ (Lewis and Weigert, 1985, 970). It attracted my attention because it expresses the irreducibility of trust. It draws attention to the fundamental problem of trust: a central, vital part of our lives and economies, but a phenomenon that seems to work better in practice than in theory as Hollis (2006) remarked. Drawn to this puzzle, the researcher is pulled deeper into looking for the origins of trust and I have, like Möllering (2006, 1), started out on ‘the slippery slope’ of trust studies.

The three mechanisms detailed in the preceding sections combine together as antecedents of trust. The problem, according to Möllering (2001, 2006), is that the bases of trust: reason, routine and reflexivity, tend to be confused with the process of reaching trust. Each of the three antecedents leads to a theoretical impasse where logically, people would not trust, yet they do. Not blindly and perhaps with, retrospectively, rationally good reasons, but people do enact agency, make a decision to trust and seem, by and large happy to live with irreducible social uncertainty and vulnerability (until deception).

Giddens (1994), suggests the same thing when he says that all trust is blind trust. Which is not to say that people trust blindly, but rather that rational calculation, institutions and reciprocal trust building, in all their variations and manifestations described above, only go so far in explaining why people take ultimately unfounded risks and ‘just do it’. The leap of faith is critical to trust because it embodies the behavioural consequences of making a trust decision (Li, 2012).

Trust only becomes a meaningful construct when it is impossible to make decisions in a strictly calculative way. Otherwise, if decisions are purely a type of calculus, as economists and rational model theorists propose, trust is effectively calculated away and ceases to exist. Game theory helps us understand certain choices open to agents, but trust is too often a solution to players’ dilemmas that lies outside of game theory (Möllering, 2006).

Institutional approaches help us to understand that trust may be born of routines and 'taking-for-grantedness', but institutions cannot remove social uncertainty. They may be substitutes for trust and promoters of trust (Lane, 1998, Lane and Bachmann, 1996, 1997, Bachmann and Inkpen, 2011), but are also objects of trust and as such one must ask the question of why people trust them at all, and how can one be sure that a) our partners know the rules and b) whether they want to play the game by them?

A step by step approach may or may not lead to the elimination of uncertainty and vulnerability and then to the creation of trust, but a positive spiral would eventually lead to the disappearance of trust. In any case, the gradual build-up of trust over time may take too long to be useful to actors and, like the rational choice models; it cannot explain why people would take the first step.

In sum, the mechanisms that provide a basis for trust do not explain how uncertainty and vulnerability are dealt with within trust. Reason, routine and reflexivity lead agents to a certain point where they must make the decision to trust or not, with all the uncertainty that this decision may entail. Möllering (2006) terms this bridging between the (poorly) known present and the (partially) unknown future 'suspension'. He goes back to Simmel (1990) who described this state as being 'less and more than knowledge'. It is an intermediate state, between knowledge and ignorance, about our world now and possible future worlds. Trust for Simmel is a quasi-religious faith of man in man. In other words, people trust because they trust in man's humanity. One may well ask, what is the alternative? A Hobbesian state of man against man, a paradise for lawyers where every transaction is buttressed by complete, detailed contracts, inter-firm relations where hostage taking is the norm, or a country such as Nigeria where one would not give with the left hand unless assured of receiving something simultaneously with the right?

'Suspension is the process that enables actors to deal with irreducible uncertainty and vulnerability. Suspension is the essence of trust, because trust as a state of positive expectation of others can only be reached when reason, routine and reflexivity are combined with suspension' (Möllering, 2006, 110).

At the beginning of every social encounter ‘the individual simply suspends belief that the other is not trustworthy and behaves as if the other has similar values and can be trusted’ (Jones and George, 1998, 535).

Trust is an on-going process of building on reason, routine and reflexivity, thus reducing uncertainty and vulnerability and acting *as if* they were favourably resolved.

For Möllering (2006) there are three possible paths to suspension.

II.5a: The ‘As-if’ Attitude

As-if trust is ‘trust as fiction’. As I have evoked in the chapter above on trust as a natural attitude, where actors fill in the gaps and make up the missing pieces of the puzzle. Lewis and Weigert (1985) noted that ‘to trust is to live *as if* certain rationally possible futures will not occur’ (p969), and equally, ‘trust is to act as if the uncertain future behaviour of others were indeed certain’ (p971). Trust doesn’t necessarily need to rest on certainty. If it did, it wouldn’t be trust, as dealing with incertitude is an essential part of trust. The as-if attitude denotes that trust rests on an illusion, ‘a reality in which social uncertainty and vulnerability are unproblematic’ (Möllering, 2006, 112). Möllering (2006) calls this a ‘socially constructed fiction of trust’ which is produced through interactions and recourse to institutionalised practices.

In industrial districts, actors may possess fine detailed information about a partner’s reliability, either through existing exchanges or through the overlapping social and business networks in the district. This level of information facilitates the ‘gap leaping’ that actors must do to trust. In other words, the information available makes filling in the gaps of the puzzle easier. To continue the metaphor, ingrained institutional practices supply a recognizable framework to the puzzle. Actors can never (or only rarely) have sufficient information with which to make decisions. In trust situations they sometimes make inferences beyond what the underlying information can actually support (*überzogene Information*, overdrawn information, Luhmann, 1979).

In his study of embedded relations in the New York garment district, Uzzi, (1997), found that managers did not seem to be all that calculative. Managers did not seem to search out

specific information about prospective partners in order to calculate the likelihood of defection and trust was more of a heuristic where actors 'had a predilection to assume the best when interpreting another's motives and actions' (Uzzi, 1997, 43).

Uzzi (1997), remarked on the capacity of actors to re-interpret behaviour in a positive light in order for the behaviour to fit into a pattern of trust. When confronted with a deficit of reliable information. In his paper on the garment district of New York Uzzi describes behaviour which could easily have been interpreted as opportunistic (rolls of fabric 'disappearing' for example), but in the absence of credible hard data, managers preferred not to interpret this behaviour as opportunistic and tended to prefer favourable interpretations, such as blaming transport companies rather than suppliers. Not many people would accuse these New York garment manufacturers of being excessively naïve. Characteristic based trust (Zucker, 1986), is somewhat similar: actors infer future behaviour from the others belonging to a particular group. In the face of a deficit of information, actors deliberately over interpret available information to use as a springboard into uncertainty.

Here trust is fundamentally a social phenomenon as Lewis and Weigert's 1987 paper so clearly underlines. Society, actors and trust are socially constructed. A kind of drama comes to life through being performed and actors engage in *normalising* in order to preserve their (collective) fiction as normality. All social life is fictional and the fictions needed for trust are but one part of this social construct (Möllering, 2006).

Trustors rely to a great extent on trustees when constructing an image of those trustees as worthy or not. Whoever wants to win trust and be considered trustworthy must take part in social life and be capable of building up expectations into his own self-representation. This is the basis of Hardin's (1992) as-if trust. An actor becomes trustworthy when others treat him as if he were.

The as-if concept can also explain the construction of unreal but helpful idealisations. An institution, person or practice may be idealised as trustworthy and perfect and acted on as such. Even though an actor knows that the police or policemen and women, for example, are not perfect, conceiving of them as perfect allows ordinary daily behaviour to continue as if the institution could be trusted.

II.5b: Bracketing

Another method people may use to make the leap of faith is bracketing. Bracketing is based on the idea that while the problem of uncertainty can never be fully resolved, a successful strategy is to reduce complexity and make it liveable with by 'blending out' the unknowable (Möllering, 2006). According to Giddens (1990) people trust abstract systems on the basis of a leap of faith which brackets ignorance or lack of information. This bracketing is learnt from an early age where the young child learns to live (temporarily) with the absence of its parents. The child learns the ability to trust in their return, thus according to Giddens, (1990, 19), 'bracketing distance and time and blocking off existential anxieties'.

Giddens continues this line of reasoning, maintaining that the child's ignorance and anxiety can be generalised to the problems that all actors face in social interactions with others whose intentions and actions they cannot fully know or control.

This 'just-do-it' approach suggests that actors should heroically or foolishly ignore the dangers of life and society in order to trust because 'trusting is good'. Actors may make leaps of faith many times a day (and perhaps more often than they realise), but they also make clear choices not to leap. Bracketing is about ignoring the unknowable and 'getting on with it'. Leaping is not compulsory, nor is the size of the leap that people must make unimportant. An actor's capacity to make the leap is equally idiosyncratic and context related. One should keep in mind the strong element of agency in trust: people decide to bracket out the unknowable and trust on the basis of incomplete information. For example, while millions of people casually take aeroplanes every day, trusting complex systems of pilots, air traffic controllers etc. and putting their faith in obscure laws of aerodynamics that they do not pretend to comprehend, a small percentage of people however is incapable of ignoring their ignorance and cannot fly because of their lack of trust in this complex system.

Every trustor lacks certainty about the consequences of their trust and can only reach a state of trust through the kind of faith which Simmel (1950 in Möllering, 2002) called the affective, even mystical 'faith' of man in man.

II.5c: The Will to Believe

As mentioned above, agency is central to trust because the actor decides whether or not to suspend uncertainty and vulnerability. For Luhmann (1979), trust is closely linked to this will to believe. According to Luhmann, an actor willingly surmounts this deficit of information.

Möllering (2006), in an attempt to examine the notion of faith, returns to the work of James' pragmatic philosophy (1879), where faith is defined as a working hypothesis. The parallels between faith and suspension are more than clear as in this following quote;

‘faith means belief in something concerning which doubt is still possible, and the test of belief is the willingness to act. From this pragmatic view faith is the readiness to act ... (where) the prosperous issue of which is not certified to us in advance’ (James, 1879, in Möllering, 2006, 118).

Faith, when described in these terms matches exactly the element in trust which allows the trustor to have more favourable expectations towards other actors and their largely unknown or uncontrollable behaviour. Faith here requires a ‘sentiment of rationality’, where the actor has a genuine, but not wholly convincing, belief in what is true and possible. Faith enables expectations of others’ actions, thus permitting action by the actor.

Faith for Möllering (2006), is the way to explain the starting point of trust. It is a self-fulfilling attitude: ‘faith in a fact helps create the fact’ (p120). He quotes James again (p120), in order to underline, again, the central social aspect of trust : ‘a social organization of any sort whatsoever, large or small, is what it is because each other member proceeds to his own duty with a trust that the other members will simultaneously do theirs’.

But, again, as with the preceding sections, actors will not be foolish or naïve enough to attempt a leap from any base. Faith has to resonate with the actors experience and worldview, ‘it must feel right and plausible, in spite of inconclusive evidence’, (Möllering, 2006, 121).

II.5d: Evidence of suspension.

Suspension as central to trust is not a new concept in trust studies, as the quotes from James and Simmel above show. It has been on the whole neglected in trust studies during the trust 'revival' of the 1980's and 1990's. Studies have concentrated on either one side of the equation: how the trustor makes the decision (Mayer et al., 1995 for example), or how the trustee weighs up their moral obligations to honour trust (Hosmer, 1995).

Since his attempt to re-launch suspension as a central element of trust in his 2001 article, Möllering (2006) notes that there have been few empirical studies which have investigated the existence or not of suspension. Curiously, most of these studies have taken place in the medical field and have not been picked up in management and business studies.

For example Bernstein, Potvin and Martin, (2004, in Möllering, 2006), examine the way patients facing life threatening brain tumour surgery bracket out the unknowable possible futures in order to trust the surgeon, literally with their lives. A patient remarks: 'A slip of the scalpel... you think of these things, but I ...have confidence in him and I'll just have to be, you know, I will just assume that everything will be all right' (Bernstein et al. in Möllering, 2006, 122). Other patients say they do not worry about the risks because they cannot do anything about it and therefore bracket out the uncertainty in order to achieve suspension and deal with a terrifying operation in a trustful way. McKneally, Ignagni, Martin, and D'Cruz, (2004), studied patients who had undergone gall bladder operations and found that a small minority of patients (6 out of 33), adopted an unquestioning attitude, trusting the surgeon (and the hospital system) without proof in a 'let's do it' way. Most patients in this study simply put aside their doubts and although they had gathered information about their disease and treatments, they couldn't analyse risks purely by reason. McKneally et al. (2004), found that there were as many ways of suspending as there were patients. Some read up about the illness and the surgical procedure, many were pushed to undertake the operation by increasingly intolerable symptoms or by the fear of the consequences of not acting. All were aided in making their decision by the empathy and encouragement of the doctors and nurses concerned.

Brownlie and Howson (2005) emphasise that suspension does not happen in isolation but within relationships and networks when parents, making decisions about vaccinations for

example, search relevant information from health officials, but also friends and family in order to familiarise themselves with the decision to make. ‘Individuals make leaps of faith refer to a fiction of reality that is produced individually, collectively and institutionally’, (Möllering, 2006, 124).

Möllering (2006) acknowledges that the search for elements and proof of suspension is still a relatively recent research direction, but argues for continued research in this domain in new areas outside the health care system. He maintains that all trust ‘is partly borne by society’ (p126). And individuals act according to their embeddedness and notions of legitimacy in their social context. The agency of trusting is supported or not by the social context and structure in which the actor evolves and interacts.

In industrial districts, the social context and the social structure supports individuals in their agency and reduces the gap to leap through three ‘solid’ bases. High levels of information allow actors to calculate the probability of opportunism, solid interiorised social institutions allow actors to produce a fiction of reality where trusting is normal, and repeated interactions allow actors to verify the social integration of an exchange partner.

Few, if any studies of trust in industrial districts have integrated the concept of suspension. What is surprising is that the majority of studies of industrial districts, while acknowledging the centrality of trust and cooperation, treat trust in a casual and offhand manner, relegating it to the periphery. Very few have investigated what trust actually means, its antecedents and foundations, nor have many studies clearly defined the level of investigation (micro, macro, meso), nor which side of the equation (trustee, trustor) is being examined. So many district papers turn around the simple ‘repeated local exchanges allow trust to develop’ argument.

Summary of Chapter II

In this chapter I have sought to highlight the different approaches in the literature of trust studies. Reason, routine and reflexivity, apart from being convenient themes around which revolve the abundant literature on trust, provides a clear multi-dimensional approach to a slippery and elusive phenomena. Obviously, trusting is, more often than not, a combination of these three elements in differing degrees according to context and contingency.

Each of the three approaches has clear limitations and can only go so far in explaining the origins of trust. The rationalist explanation of trust runs repeatedly into paradoxes that require ‘fixing’ by adding on elements to rational choice or game theory models. Even taking into account the ‘shadow of the future’, backward induction arguments make it difficult to envisage the first step to trust. There may be an element of reason in trust, but trust cannot be explained by reason alone. An institutional explanation to trust can explain that people often trust through habit, by taking it for granted. Neo-institutional sociology suggests that trust may be a form of institutional isomorphism. Institutions may be a source of trust and also an object of trust. Institutional approaches however do not eliminate agency which remains the central aspect of trust. These two approaches do not resolve Granovetter’s conundrum and do not find a middle way between under and over socialised theories. Perhaps a more process orientated would help us to understand the creation of trust. It is after all common knowledge that trust is built up slowly through on-going interactions. It may grow and prosper if both parties make efforts and display their goodwill. This ‘active trust’ evolves in a process of familiarization and structuration. Actors, however, are assumed to build on a first step towards trust, but there are difficulties in comprehending how and why actors ‘just do it’. The first step to trusting remains as elusive as ever.

Möllering (2001, 2006) evokes the concept of ‘suspension’ or ‘the leap of faith’ to bridge the gap between imperfectly known and the undefined future. Social action cannot be undertaken without some trusting behaviour. Quéré (2001) uses the metaphor of a blind person crossing the road to explain the problem of trust and its eventual solution that is suspension. The blind pedestrian cannot know all the elements necessary and must proceed with a certain number of conjectures and suppositions made from limited sensorial

information. In such a situation, uncertainty would paralyse all action; the solution is trust which is enacted in place of information and control.

Chapter III: Trust in Industrial District Literature

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Chapter III Trust in Industrial District Literature

Introduction.

According to Staber (2007, 342) district literature lacks any ‘serious analysis or consistent theory of the processes and mechanisms by which trust develops’. This thesis addresses this lacuna directly. The following part will examine the treatment of trust in district literature over the last 20 years. The central theme which emerges is that authors have approached trust from different theoretical points of view with disparate results. For example, Porter’s work on clusters has re-launched the concept and provided clear policy guidelines which have been implemented in many countries and regions, but he remains relatively obscure when examining trust : ‘...the proximity of companies and institutions in one location – and the repeated exchanges among them – fosters better coordination and trust’, (Porter, 1998b, 80). As if in order to create trust, all firms need to do is to agglomerate and exchange.

Another example of how trust is glossed over in the literature can be found in Uzzi’s analysis of arm-length and embedded supplier relations in the New York fashion district. Uzzi, devotes two pages to the concept of trust, but only in the very broadest of terms, even though ‘respondents viewed trust as an explicit and primary feature of their embedded ties’ (Uzzi, 1997, 43). He does not give an adequate definition of trust, nor does he make the link between trust and the embedded ties clear beyond repeating managers’ opinions of the importance of trusting a partner in an embedded tie. Finally, the sources of trust are not developed to any particular degree, but he would seem to adhere to a process-based approach where ‘trust developed when extra effort was voluntarily given and reciprocated’ (ibid. 43, 62).

This critical review of the literature will proceed in the following manner. Firstly I shall attempt to show that most cluster and district literature does not seem to adopt *any* particular trust model. I shall regroup research around the three themes of reason, routine and reflexivity despite the inherent difficulties of the exercise related to the fact that most authors mix and match their approaches with frequent contradictions and confusion.

Part 1: Trust as reason in industrial districts.

Several district scholars reject calculative trust outright. Dei Ottati (2002) does not provide many arguments for this rejection apart from preferring an institutional basis (similar values and common rules of behaviour) for trust. Humphrey and Schmitz (1998), reject calculative based trust on game theory grounds (the backward induction argument), but at the same time recognise interdependence as central to inter-firm relationships. This interdependence creates the need for trust and implies calculation and encapsulated trust. Could this (ideological?) bias stem from the fact that economists examining industrial districts have excluded trust from their analysis, or is it because other social scientists (sociologists, geographers) analyse industrial districts primarily through sociological institutional lenses? Dwivendi, Varman and Saxena et al. (2003) indicate this bias where they discard reason as a basis for trust because;

“deterrence and calculus based trust, with their narrow motivational aspects, do not match the description of cooperative interfirm relations in the industrial district literature” (p96).

This remark strikes me as being rather naïve. District firms do not *only* cooperate and there is not a complete absence of rivalry and competition among geographically proximate firms. Certainly industrial district literature underlines the unique mixture of cooperation and competition in industrial districts. But districts are not idyllic economic paradises inhabited by naïve, altruistic hippies. District firms manifest both cooperative and competitive strategies. They consist of hard-scrabble, down to earth managers who battle daily to maintain quality standards, market share and profits. Competition exists in industry districts. Local rivalry is the driving force behind district innovation in Porter’s (1990) model. Discarding calculation and deterrence entirely as sources for trust has no empirical (or theoretical) founding. Actors in industrial districts may be highly socialised agents, but I doubt that all small firm managers in districts have discarded egotistical profit motive completely in favour of unbridled altruism.

The out of hand rejection of calculative trust is all the more strange for two reasons. Firstly, mutual interdependence among highly specialised firms is one of the central pillars of the district model. From this awareness of interdependence is born encapsulated trust.

‘...firms relate to each other on the basis of mutual complementarity and above all interdependence. The latter in particular provides a crucial condition for trust to root.’ (De Propriis, 2001, 746).

Secondly, districts are considered to be places where information flows freely and rapidly through the overlapping business and social networks. Actors have large amounts of information concerning possible exchange partners’ history, reputation, technical competence etc. in ‘community markets’ (Maskell and Lorenzen, 2004, Maskell, 2001, Lorenzen, 1998, 2002). Although complete information is impossible (and in any case, would remove the need for trust), actors in districts have, in theory, enough information to calculate trust with intra-district partners. Having enough information to calculate trust with local partners is one thing, it is quite another matter to attempt to calculate trust with external partners as will be discussed later.

In their analysis of three cases of trust creation (or destruction or absence) in post-communist Russia, Brazil and Pakistan, Humphrey and Schmitz (1998) reject calculative trust (in game theory terms) on the very solid basis of the bounded rationality of actors as noted in the preceding part. However, on closer inspection, in the section treating the spoliation of the Russian state by a small group of oligarchs, the authors seem to recognise the trust or distrust which results from calculations and encapsulated trust. Despite discounting calculation as a basis for trust, Humphrey and Schmitz detail how unscrupulous actors calculated the possibility of succeeding through opportunistic behaviour. The major part of their paper details the reasons why distrust is (or was) so widespread in the aftermath of the disintegration of the Soviet Union. The absence of solid institutions (no legal system, rapidly changing rules, no property rights and difficulties in enforcing contracts) allowed actors to calculate the very low chances of being caught and punished for opportunistic behaviour. Immediately after the fall of the Soviet empire most transactions were one-off (no future gains to be had from repeated transactions), and opportunism will pay in the absence of sanctions. Formal sanctions were a remote possibility and social sanctions equally unlikely because the old social fabric was being destroyed. Small groups of former soviet managers were able to work together to plunder the state. In this example their demonstration is hampered by confusion over the use of the word institutions. Economists use the word in terms of external rules which constrain

behaviour. Actors can therefore calculate the probability of these rules being enforced and factor in these considerations in decision making. Sociologists on the other hand, tend to see institutions as implicit rules which are interiorised through socialisation processes described above. These institutions therefore become routine or 'the way we do things here'. One can see a similar argument (although more explicit) in Farrell and Knight (2003). As the Bologna packaging machine district restructured along more hierarchical lines around central firms, the calculation of sanctions in more structured, contractual relationships is proposed as support for rational choice trust by the authors, although this argument is not well developed.

In his analysis of the Come silk industrial district Alberti (2006) notes that levels of inter-firm trust diminished during the decline of the industry due to recession and increased international competition in the 1990's. Although Alberti does not explicitly say so, it would seem that trust diminished when firms stopped thinking in terms of collective performance but rather in terms of individual calculation – in order to survive an economic downturn. The diverging of interests of the district firms reduced or destroyed encapsulated trust in adverse economic conditions. Actors reverted to a calculating *homo oeconomicus* attitude; in this case, as subcontractors in the district were unable to trust large firms who promised future orders (rarely delivered) against immediate concessions in terms of prices and quality.

Few authors argue that actors do calculate trusting decisions in districts. Farrell and Knight (2003) provide support for the rational choice model when they maintain that managers calculate the risk of sanctions. In their limited, explorative survey (11 interviews including 5 owner/managers), Oba and Semerciöz (2005), argue that managers in Istanbul's textile district base their decisions on the reputation and technical competence of possible partners. The information managers sought from their networks concerned past behaviour of other network members. The authors conclude that a central position in district networks is important for business opportunities (assuming one's reputation was untarnished). Mackinnon, Chapman and Cumber (2004) draw a similar conclusion, noting that trustors trust on the basis of reputation and competence. One could however question such results on a methodological basis. Asking managers directly why they trust this or that firm could lead them to rationalise past decisions according to two obvious criteria for trust; technical competence and third party references (which is possibly a way of avoiding a decision

through delegation or isomorphic mimicry). One could hardly expect managers to explain (justify) their decisions by referring to implicit, socialised institutions that for which they may not possess sufficient distance to recognise. (Can one expect SME managers to think like social scientists?).

Asking direct questions about why a respondent trusts (or trusted) in a specific situation runs the methodological risk of having respondents rationalise and justify previous decisions which may have been made through interiorised norms or conventions. This is a point to which I shall return in the methodology section. The salient point of norms and conventions is that the agent may not be fully aware of their influence on their behaviour (Hodgson, 2006). Respondents looking for ‘good reasons’ (Möllering, 2006) to explain trusting behaviour will fall back on seeming rational responses such as ‘they are technically competent’ for example, where the question of competency was proved *ex poste* and may not have entered into the original decision making process.

After criticising economists approach to trust, Lorenzen (1998) seems to refer to a largely calculative basis of trust, because agents in districts possess large amounts of information concerning potential (local) partners.

‘what is important is information about the actions of others; paired with a broad range of information on their origin; history, family ties; profession and so on. To these things, one may ascribe a symbolic meaning and place trust accordingly’. Lorenzen, (1998, 23),

‘in such contexts (geographically proximate firms), the type of information needed for ascriptive trust is ‘social’ and easily available for most agents through gossip and advice giving. This may explain why geographically proximate firms achieve trust more easily’, (p24)

The ‘transparency’ hypothesis (geographic proximity facilitates observation and multiplexity of ties; organizational, social and cognitive proximity, facilitates understanding), the idea that district actors possess large amounts of significant and up to date information about perspective partners is taken to its logical conclusion when Maskell and Lorenzen (2004) discuss the implications of information costs with respect to repeated

exchanges and ‘sunk costs’ of long term mutual adaptations. Actors calculate in game theory terms as discussed in part II, evaluating the gains from opportunism offset against the ‘sunk costs’ of previous adaptations and the loss of future revenue flows through breaking the relationship;

“trust will characterise a relation between business firms when each is confident that the others’ present value of all foreseeable future exchanges exceeds the possible benefits of breaking the relation. The larger the sunk costs, the greater the confidence and trust” (ibid, 994)

While Humphrey and Schmitz (1998) reject calculation, evoking the backward induction argument and bounded rationality, Maskell and Lorenzen (2004), have no qualms relying on actors’ capacity to calculate payoffs thanks to abundant information in ‘transparent’ local markets. Maskell and Lorenzen do not pretend that districts are pure and perfect markets, but suggest that more information than average (although what this average would be remains to be decided) is available thanks to overlapping social and business networks.

Abundant information facilitating calculation is a common theme in many approaches to trust in industrial districts, but echoing earlier arguments of the complexity of social life and an agents cognitive limits, Dupuy and Torre (2004, 4), maintain that, by definition, with incomplete and partial information ‘an actor must make a subjective estimation’ to trust. The word subjective now brings us to regard how scholars in district literature have analysed trust which draws on institutions, both formal and informal.

Part 2: Trust as routine in districts: the institutional approach.

When considering institutional foundations of trust in industrial districts most researchers implicitly look at informal rules, codes, conventions etc. which shape actors mental schemas and thought processes (Becattini et al, 2010). But frequently, as for trust as reason discussed above, there is much confusion in the literature when authors do not distinguish between implicit, local rules, and explicit national regulations or systems. Even Humphrey and Schmitz (1999) who delineate system trust (minimal rules for market transactions) and

‘extended trust’ between agents on a meso or micro level, seem to oscillate between the formal and the informal.

For many authors trust is simply *there*. It is part of the texture and history of the region, as described by Putnam (1993), where a long history of horizontal bonds dating back to the early medieval period lead the way to collaboration amongst people and firms, of which Italian industrial districts are a manifestation. There is a local culture of trust (Boschma and Lambooy, 2002). Trust is often a local capacity (Eraydin and Armatli-Koroglu, 2005) which takes its source from shared histories and experiences of decision makers (Gordon and McCann, 2000). Researchers seem to consider that geographical proximity is sufficient to generate trust and, by implication, that actors cannot trust over distance.

‘Intense social fabric makes it possible to trust neighbours’ (Rosenthal, 1997, 7),

or,

‘spatial proximity will tend to foster such trust relations’ (Gordon and McCann, 2000, 46).

Amin (1999, 393), talks of ‘broader communitarian ideology of co-operation and consensus’ as the basis for trust. Bellandi (2002, 427) echoes Amin (and much of the Italian district school), when he maintains that districts benefit from,

‘local public goods (that) include a societal orientation that supports the building of reciprocal trust in economic exchanges’.

Trust in industrial districts is part of the ‘deep structure’ of the district. This ‘relational macro-culture’ based on local norms and history is found repeatedly in the literature. ‘Shared values of forbearance, co-operation and bilateralism across organizations in the cluster’ (Bell et al., 2009, 628), are taken for granted and seem to have always existed in the region studied¹⁷. Yet trusting relationships are not uniform across different districts as detailed by Paniccia (1998). Few authors, (with the notable exception of Staber, 2007),

¹⁷ Note the similarities with Putnam’s (1993) argument.

attempt to explain how clusters and districts have followed either a virtuous circle of trust or the vicious alternative of distrust.

Dwivendi et al. (2003), base their discussion of the sources of trust on Zucker's (1986) model of characteristic, process and institution based trust and add four more sources, deterrence, calculus, knowledge and identification based trust. The two final bases for trust in their model, knowledge and identification, seem to us to be too similar by far to process and characteristic based trust respectively. Knowledge based trust according to Dwivendi et al. is the result of trust evolving over time, a function of past interactions. What is the difference between this definition and process based trust which 'develops through imputation from outcomes of prior exchanges' (p96)? None that I can see. It is a similar story for identification based trust, 'understanding each other's wants' (p96), and characteristic based trust which 'provides a common background required to develop understanding' (p96).

In a detailed institutional examination of trust construction in agglomerated economies Murphy (2006) bases his analysis of the creation of trust squarely in the interpretivist framework as opposed to a mainstream economics view. Trust, for Murphy is a product of the alignment of values, expectations and behaviours rather than a purely rational choice.

'Trust is not a rational choice *per se* but rather a moral and subjective construct that emerges when one agent complies with the expectancies of a relationship and when one's self-identity (i.e. his or her perceived social role) is recognized and verified by the other' (Murphy, 2006, 434).

He considers trust to be a function of interpretive frameworks which,

'are a function of the logic behind social interaction and act, in essence as normative and ontological reference systems that guide an individual's behaviour.' (p438).

Role and identity shape world views or 'social codebooks' in industrial districts where actors come from similar backgrounds and have been through similar formative experiences. Such common interpretative frameworks may modify actors' perceptions of

what is a rational choice because ‘economic activities can be situated within the discursive spaces where they occur’ (Murphy, 2006, 440).

‘trusting relationships and network connections are theorized here as temporal relational fields which emerge from within particular social, material, and political settings and which are maintained and transformed through the cognitions, symbolic exchanges, and performances of the agents in them’ (p440).

For Murphy, voice and communication channels are vital to the construction of trust;

‘trust building processes are communicatively driven and shaped by influences at three scales – the micro (the subjective), the meso (inter subjective) and the macro (the structural or institutional)’, (Murphy, 2006, 440)

Part 3: Process Based Trust

Process trust is perhaps the most ‘common sense’ approach to trust. Many authors implicitly accord importance to the reflexive construction of trust between district actors. Possibly because local exchanges are assumed to be more frequent, intense and long-lasting and repeated exchanges lead to the creation of ‘mini-societies’ (MacNeil, 1980). For example, Maskell and Malmberg (1999), seem to take a process based approach to trust building; ‘Firms build trust-based relationships by piecemeal committing themselves economically and socially, (p18)’, but also indicate that trust becomes a habit (therefore an institution?) as ‘(the) default (setting) is trust if nothing is known of the firm’ (p18). It is difficult to follow the logic here: trust is built up over time through mutual investments and adjustments except when dealing with unknown firms when trust is the default setting? Trust eventually becomes a shared ‘routine’ amongst actors (p18), therefore an institution? Process based trust depends on communication and interactions between actors; it is assumed that more interactions lead to more trust, rare are the authors who question such assumptions, (Staber, 1998, 2007).

If both partners act in good faith one could expect trust to develop in a step by step process described in chapter 8 above. What matters when looking at process based trust in industrial districts is the speed at which this trust develops. Actors in districts benefit from

a coherent (to them) set of implicit and explicit institutions which allows them to accelerate trust creation. For example when discussing trust in chapter 8, two models of trust development were examined, those of Zand (1972) and Ring and Van de Ven (1994). Zand's model proposes information disclosure as a key component and as discussed frequently above districts actors possess (or can obtain) large amounts of pertinent information about their prospective partners. Simultaneously, the information disclosed by partners during exchanges is *salient* in the sense that the signals emitted and intended to prove trustworthiness will be framed according to the actors 'common world' and similar 'social codebooks' (Maskell and Lorenzen, 2004, 994), or cognitive proximity. One such institution, for example, would be the notion of equity or fairness which assumes a central role in Ring and Van de Ven's model because actions, commitments and expectations are evaluated by participating actors through the lens of equity. Local actors may need to verify a partner's adherence to a mutually satisfying idea of equity, but agreements on actions and commitments would arrive much more rapidly in the process than during, say cooperation between actors from different cultures and institutional environments. In their empirical study of *comté* cheese makers engaged in drawing up quality and quantity regulations, Torre and Chia (2001) found that local or 'domestic trust' based on a common (local) history and culture (in fact characteristic-based trust, Zucker, 1986) was insufficient in itself to facilitate cooperation. A lengthy period of negotiation was necessary for participants to build a stronger process-based trust through verification of adherence to local norms. The coordination process led to the construction of trust, but this trust seemed to be built on and facilitated by local norms and cognitive proximity. The authors suggest that geographic and cognitive proximity enabled, 1) repetition of trusting actions, 2) daily verification and 3) the diffusion through the network of adherence to 'correct' behaviour¹⁸.

Humphrey and Schmitz (1998), in their analysis of Brazilian and Pakistani districts mentioned above, put forth the idea of a combination of pathways to building trust. They note that in both districts studied (shoes in the Sinos valley in Brazil and medical instruments in Sialkot in Pakistan), actors performed a 'double screening' where partners from clan, caste or social group were trusted and then tested upon that trust in graduated exchanges, similar to the gradual increasing of risk and trust that Lorenz (1998) found in

¹⁸It should be noted in this example that the participants were not exchanging products or components as in most industrial districts, but rather defining the rules for future behaviour

the Lyon metal-working district. Drawing on Zucker (1986), Humphrey and Schmitz contend that trust in these two districts is moving from a purely (local) characteristic based trust to a more process based trust as the district grows and acquires more and more outside, international clients (Humphrey and Schmitz ignore another possibility, evoked by Barabel et al., 2007, that outside actors – national or international, may come into the district attracted by its success and world class suppliers and therefore weaken these links of kith and kin).

Murphy (2006) underlines the reflexive nature of trust creation, considering trust creation to be a dynamic social process which calls upon actors' bounded rationality and but also 'the attitudes, feelings, props and visual clues which are mobilized in the process of constructing trust', (p435). Social interactions are shaped by interpretive frameworks or situational definitions. Trust building processes are 'communicatively driven' (p440), while role playing enables individuals to 'objectivise themselves', therefore permitting social actors to generate meanings about what trust is and lead to a stabilised understanding of its implications. These shared meanings and expectations of roles to be played may lead to distinct economic practices and outcomes as is the case in industrial districts. An individual's perception of trustworthiness (of the other) and the expected behaviour in a given situation will be shaped, for Murphy, 'by the degree to which inter-subjectivity¹⁹ is achieved in the communication process', (p438).

Summary to Chapter III

The question is (assuming that industrial districts are typified by trust relationships), how does trust develop locally? Current literature is prolix on the importance of trust and its place in district exchanges, but sparse on its constitutive elements and its creation. Why does it start and develop in one particular place? A game theoretical response to this question would take the form of Axelrod's tit-for-tat strategy discussed above, where trust is developed as agents decide whether to cheat or to honour trust. But one is no closer to an answer. Why would one agent take the risk to trust? Lorenzen (2007) would have us believe that trust is a result of the density of social relations in a regional institutional context, but has difficulty explaining this first step towards a higher end equilibrium.

¹⁹ Defined as 'the coordination of consciousness between two or more actors' p438

Table 3.1: Trust in district literature.

Authors	Trust : Central or Peripheral	Theoretical or Empirical	Comments
Amin, (1999)	Peripheral	Theoretical	Trust central to communitarian model
Alberti, (2006)	Peripheral	Empirical	Lower levels of inter-firm trust during decline of Como (It.) silk ID, since 1980's
Arikin, (2009)	Peripheral	Theoretical	Trust central to information transfer
Barabel, Huault & Meier, (2007)	Peripheral	Empirical	Changes in structure in Arve valley lead to more arm's length relationships, but trust (undefined) between local actors is seen as the solution
Bellandi, (2002)	Peripheral	Theoretical	Trust part of deep structure of ID Social orientation supports trust (cf. Putnam, 1993)
Boschma & Lambooy, (2002)	Peripheral	Theoretical	Trust central to ID based on local culture
Cohen & Fields, (1999)	Central	Theoretical	Trust and social capital stems from repeated interactions, 'industrial order' shapes social forces and norms
Das & Teng, (2002)	Peripheral	Theoretical	Generalised reciprocity is basis for trust in social exchanges (p.449), trust reduces anxiety and allows reciprocity, p.448 (!)
Dei Ottati, (2002)	Peripheral	Theoretical	Trust in ID solves coordination and opportunism problems Rejects calculated trust for institutional and process based trust
Dupuy and Torre (2004)	Central	Theoretical	Cultural homogeneity (reinforced by information flows) is basis of ID trust
Dwivedi, Varman, & Saxena, (2003)	Central	Theoretical	Characteristic based trust (i.e.; common group culture etc.) insufficient to explain trust in IDs, knowledge and institutions important but calculus based trust discarded
Eraydin, Armatli-Koroglu, (2005),	Peripheral	Empirical	Networks depend on social capital (including trust)

Farrel and Knight, (2003)	Central	Empirical	Relationship between institutions, power and trust. Structurist approach : power structure modifies rules therefore less trust
Gordon & McCann, (2000)	Peripheral	Empirical	Trust is institutionalised, resource for local firms
Humphrey & Schmitz, (1998)	Central	Theoretical	Trust in developing country clusters (Brazil & Pakistan) & former Soviet Union How do we grow trust?
Khan and Ghani (2004)	Peripheral	Empirical	Trust one of success factors in Faisalbad textile cluster. Trust as substitute for contract and institutional arrangements.
Lorenzen, (1998)	Central	Empirical	Trust in IDs is largely based on high amount of information available to actors
Lorenzen, (2002)	Central	Theoretical	Two types of trust in IDs – dyadic and social Trust is main coordinating mechanism in IDs
Lorenzen, (2005)	Central	Theoretical	Social capital (dense relations) gives rise to trust on a regional level
Lublinski, (2003)	Peripheral	Empirical	Trust part of agglomeration effects, more easily developed between geographically proximate agents, leads to reduced transaction costs
MacKinnon, Chapman and Cumbers, (2004)	Peripheral	Empirical	Trust central to networks, both local and non-local, competence trust more common than goodwill trust
Maskell & Malmberg, (1999a)	Peripheral	Theoretical	Trust as mediator in knowledge transfer, trust must be built up over time
Maskell, Lorenzen, (2004)	Peripheral	Empirical	Mixture of calculative, process and institutional approaches to trust building
Molina-Morales & Martinez-Fernandez, (2003)	Peripheral	Empirical	Trust as antecedent of cooperation, frequent contacts lead to trust developing
Molina-Morales & Martinez-Fernandez, (2006)	Peripheral	Empirical	‘Relational capital’ based on trust, reciprocity is central to ID Trust as resource and moderator of exchanges
Murphy, (2006)	Central	Theoretical	Trust as a spatially situated social phenomena shaped by

			specific subjective, inter-subjective and structural factors. Trust : a phenomena socially constructed through performances (constructivist approach)
Oliver, Garrigos, Porta, (2008)	Peripheral	Empirical	Trust underpins knowledge transfers
Oba and Semerciöz, (2005)	Central	Empirical	Actors in Istanbul textile district trust on a calculative basis (reputational effects) not kinship or contract
De Propis (2001)	Peripheral	Theoretical	Trust is central to districts and stem from interdependence
De Propis & Lazzerati, (2007)	Peripheral	Empirical	Social networks basis for trust
Paniccia, (1998)			Trust not a persuasive governing mechanism, but is generally competence based or 'social' i.e. characteristic based
Porter, (1998b)	Peripheral	Theoretical	Trust stems from proximity and frequent exchanges
Rosenfeld, (1997)	Peripheral	Empirical	Trust born of intense social fabric, trust as an antecedent of interaction and collaboration
Staber, (1998)	Peripheral	Empirical	Exchange leads to process based trust Cooperation comes from interdependency (calculation) or social relations (institutional)
Staber , (2007)	Central	Empirical	Trust considered axiomatic to ID model but several clusters do not exhibit high levels of trust. Persistence of ideas in clusters is outcome of evolutionary process.
Torre & Chia, (2001)	Central	Empirical	Cooperation between actors Comté cheese industry depends on process base trust which replaces (or builds on?) characteristic trust
Wood and Parr, (2005)	Peripheral	Theoretical	Face to face meetings facilitate trust. A homogenous transaction space lowers transaction costs

Chapter IV: Literature Gap and Research Questions

The existence of trust in industrial districts can be hypothesised from two points of view. Firstly, manifestations of trust occur when firms frequently co-operate and compete simultaneously, and, secondly, trust is needed as a ‘lubricant’ to reduce transaction costs in highly fragmented value chains of specialised firms which exchange goods and tacit information. The ‘transparency hypothesis’ discussed above and developed by Scandinavian scholars such as Malmberg, Maskell and Lorenzen, requires trust as a mediating factor which facilitates the transmission of information and knowledge between firms. Yet Part III demonstrates that district scholars tend to theorise trust in districts and have taken disparate approaches in their treatment of trust, which itself is rarely a central theme in the papers cited above in table 3.1.

Research Questions

My first research question is to examine whether or not there are strong trusting ties between district actors. The existence of strong trusting ties would partially explain, the continued existence (and efficiency) of industrial districts and the ‘stickiness’ or ‘lumpiness’ of economic activity. It is difficult enough to measure and understand inter-organizational trust (McEvily and Tortoriello, 2011); what constitutes a high level of trust? It would be naïve to expect to find or even measure an ‘average’ level of trust across so many different types of relationships in any one district. However if there is something special occurring in district relationships then it should be possible to compare intra-district links with extra-district links and dissect them in order to see if there is a qualitative difference between the two groups. My first question therefore, is, simply, are there higher levels of trust in district exchanges and if so how is it different from extra-district exchanges?

I shall then proceed to examine my second question, which was originally asked by Harrison in 1992 and, to my mind, unanswered as yet. Assuming there is more trust inside a district, where does this trust come from? What antecedents and processes lead to this stronger trust and these stronger ties? To examine this question I shall compare and contrast intra-district relationships with extra-district relationships. It should be clear from the above discussion that, for the moment at least, there is no unified trust theory. This may

explain why scholars of industrial districts, non-specialists in trust matters, have struggled to explain trust fully in their work. As mentioned above, some district scholars have favoured the rational choice model such as Lorenzen (1998), and Maskell and Lorenzen (2004) based on the assumption that agents have access to sufficient information to make informed decisions. But a large number of researchers seem inclined to reject rationally calculating actors, not so much on the basis of information asymmetries or bounded rationality, but rather because strong socialisation processes in the district over many years manifest themselves in trusting and co-operative behaviour (Putnam, 2003). If economists explain trust in terms of information and rational calculation then sociologists look to social processes, norms, values and interiorised institutions as the basis for trust. Industrial districts are considered, first and foremost, as communities where actors have a strong sense of belonging (Becattini, 1991), where there exists a relational macro culture of forbearance, cooperation and bilateralism (Bell et al., 2009). Belonging to the same group with similar values implies similar world views and similar expectations of future possibilities, both of which facilitate trust (Möllering, 2006, Murphy, 2006). Let us not forget process based trust, which was Harrison's (1992) answer to the origins of trust in districts where trust springs from frequent face to face contacts between agents who share similar 'codebooks' for communication. This is a common sense approach but, ultimately, costly and time consuming (Bachmann and Inkpen, 2011). All three approaches could explain trust creation. Disputes over which antecedent is the most common, strongest or predominant may simply be a case of repeating the fable of the three blind men describing an elephant with three different descriptions according to which part they have touched.

Having examined trust in a district I shall investigate the question of which antecedent seems the more prevalent in district relationships and equally, examine the interplay between these antecedents.

The questions posed above represent significant gaps in the literature and I hope that my results and discussion will advance understanding of these concepts in this particular context.

My fourth research question stems from the fact that one should not confuse the antecedents of trust with trust itself. The three antecedents of trust cannot individually, nor collectively, explain the 'leap of faith' or 'suspension'. It is for this reason that I shall

endeavour to identify and examine something which is perhaps even more difficult to witness than trust itself: suspension or the leap of faith. Examining why agents trust in the absence of sufficient information or seem to trust 'blindly' because it is the 'natural' thing to do, is to go the very heart of the question of what trust is or is not and how agents cope with irreducible social uncertainty.

Chapter V: Methodology

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Chapter V: Methodology

Part 1: Studying trust

If the starting point of trust is an agent's search to reduce social uncertainty by aligning expectations with exchange partners, then trust draws on the way that people (as agents), interpret our world and our reality (Möllering, 2006, drawing on Simmel). Whether the basis of trust is more calculative or intuitive, more abstract or idiosyncratic; what matters is that agents 'find' or 'feel' good reasons to trust. 'We choose those whom we wish to trust and we justify this choice by what we think to be good reasons' (McAllister, 1995, 25). Trust is a function of our individual experiences when interacting with other agents and the world around us.

An inductive, interpretative approach seems the most appropriate method to adopt in this domain. Inductive research will allow findings to emerge from dominant, frequent or significant themes in the raw data and provides depth and detail which leads to an understanding of phenomena and experiences (Bowen, 2005, Thomas, 2006). I agree with Möllering's argument that 'qualitative methods are required to understand trust as a complex idiosyncratic achievement by the embedded actor' (Möllering, 2006, 145). Trust researchers should look to obtain;

'a rich (typically qualitative) picture of actual trust experiences, understanding the embeddedness of the relationship under investigation and taking into account the reflexivity (of the creation of trust)', (Möllering, 2006, 152).

In order to examine the creation and foundations of trust in embedded relations, it is necessary to investigate the shared meanings and world views of the protagonists (Kramer, 2006, Li, 2011). In-depth, semi-directive interviews seem more likely to provide the fine-grained, contingent information as to the origins of trust in a mature industrial district than attempting to reduce a manager's reality to a series of propositions to be ticked off on a Likert scale. The construction of trust must be contextualized because it cannot be understood without reference to the trustor's particular frame of reference and world view.

An actor trusts because the possible futures that open up through the act of trusting correspond to what that trustor considers to be the realm of the possible.

The research object – the creation of trust between exchange partners – lends itself to interpretive research because I am interested in understanding how respondents use ‘sense-making or social constructivist processes in order to account for their experiences’ (Stokes, 2011, 55). In the interpretive framework the researcher looks to understand how the actors construct the meaning they give to social life. Interpretive research passes through the understanding of the meaning that actors give reality as social phenomena, and trust is socially constructed (Lewis and Weigert, 1985), are ‘created from the perceptions and consequent actions of social actors’, (Saunders, Lewis and Thornhill, 2012, 132). One must ‘take into account the intentions, motivations, *expectations*, reasons and beliefs of actors’ (Perret and Seville, 2003, 23, our italics). In particular, any study of trust must take into account institutional arrangements that can only be interpreted by the incumbent actors (Oba and Semerciöz, 2005). Interpretations which are constructed through interactions between actors, permitting shared inter-subjective meanings (the parallel with the institutional approach to constructing trust becomes clear, Perret, and Seville, 2003). Understanding in the interpretive approach implies interpreting behaviours, and necessarily, situating meanings in time and space (Murphy, 2006, Li, 2011). The challenge as Saunders et al. (2012, 137) put it is ‘to enter the social world of our research subjects and understand it from their point of view’.

A positivist approach to trust research starts with a very serious handicap; that of adopting an ontological stance where trust is considered external to the agent. In Part 2, I discussed the debate about the very definition of trust which is fuelled partly by the observer’s view of human nature and how social life might temper behaviour (Orléans, 2000). A positivist stance is evident in the rational choice model (Hardin, 1992, Coleman, 1990, Williamson, 1993b), where trust is a calculation based on available information and it is made necessary by a) information asymmetries and b) bounded rationality. The assumption of human behaviour here is of calculating, opportunistic agents who cannot be trusted. A positivist approach will have difficulties assimilating institutions and conventions into a calculating paradigm because as they acquire legitimacy over time they assume a ‘taken for granted’ quality (Lane and Bachmann, 1998, 370). In other words they become part of the ‘natural attitude’ of agents. This implies that actors trust, in part, on implicit

assumptions rather than calculation (Lane and Bachmann, 1998). Li (2011, 6) is clearly scornful of adopting positivist research paradigms in social science; 'the scientific model is a naked emperor when applied to management research'.

Calculation cannot be absent from a purely institutional approach to trust because agents develop institutions inter-subjectively over time. They may question these institutions which can and do become objects of trust in themselves.

Choosing between the two dominant strands of trust traditions, behavioural or social/psychological sets the researcher onto one research path rather than the other (Lewicki et al., 2006). An inductive interpretative approach should avoid this pitfall. These conflicting views of the research object leads me to believe that trust is constructed socially and can only be understood through interpreting how the actors being studied make sense of their world. Trust exists, but only in a social context through interactions with other agents (Lewis and Weigert, 1985). Social exchange and context may inject moral considerations into our otherwise calculating behaviour (Lane, 1998). People may react differently according to whether they are asked to trust/betray a friend, colleague or stranger according to Hollis' (1998) criticism of rational game theory. The problem of positivist research in trust studies comes from the choice of a paradigm before research can begin.

Furthermore, deductive research in this case involves reducing a complex social reality to its constitutive elements in order to construct a model to be tested. Researchers have proposed trust, but a trust model is just one way of organizing interpretations and any particular trust model is inherently futile because it must be based on understanding how people interpret their particular situation at a given moment, which is clearly an impossible task based on the over simplification of a complex social reality.

'Most conceptualisations of trust...lack sensitivity to the role of place, space or context in influencing the behavioural choices agents make when assessing or demonstrating trustworthiness', (Murphy, 2006, 435)

It is notoriously difficult to operationalise trust. Trust measurement, more of an art than a science, is highly fragmented and rudimentary. In an extensive review article, McEvily and

Tortoriello (2011) reveal that 129 different measures of trust have been used over the last 48 years of trust research. Of these 129 only 24 measures were revealed to be validated and reproduced in succeeding papers. Researchers have generally chosen one of three empirical methods (Möllering, Bachmann and Lee, 2004). Firstly, researchers have used laboratory experiments, usually based on game theory approaches with variations on prisoner dilemmas. Trust is measured as the frequency a player cooperates rather than defects. This method has the obvious limitation of being rather artificial (even though players may play for real financial rewards) and thus is questioned in terms of external validity. It is also not entirely sure that trust is in fact being measured and not cooperation, raising questions of internal validity.

The second method used is the general survey approach used to measure trusting dispositions. The General Social Survey is one such well known example and contains the following question intended to measure trust: ‘Generally speaking, would you say that most people can be trusted or that you can’t be too careful in dealing with people?’. Knorringa and van Staveren (2006) noted that people find it difficult to answer this question because the answer depended on many specific situational aspects such as the character of the other person and the context which raises questions of external validity. Möllering et al. (2004) note that such surveys where respondents must tick off their agreement or disagreement with a series of questions on Likert scales, may not actually predict manifestations *of* trust but rather dispositions *to* trust. Internal validity is not guaranteed as the respondent’s disposition to trust may reflect a series of influences not controlled in the survey such as personal experiences, personality traits and perceived qualities of others.

The third empirical method used to operationalise trust is an extension of the general survey method and asks respondents to rate the trustworthiness of a specific ‘target’, a person, partner or institution for example. This approach is equally problematic because it gives us a snapshot of a relationship at a given moment. The question is, does this targeted approach measure trust or some diffuse attitude or mood? (Möllering, 2006). I have similar reserves as to the internal and external validity with this method as expressed above. Positivist methods will always have trouble integrating the multifaceted, multi-dimensional aspects of trust and they may even miss central concepts such as suspension. For example, Svensson (2004) attempts to analyse the dynamics of trust in triadic business relationships

using 22 variables such as character, altruism, benevolence, faith, loyalty, motivation to lie and so on. These are regrouped around 5 dimensions; honesty, competency, orientation, friendliness, and reliability. Implicitly Svensson chooses a positivist paradigm where the subjective inter-active social world is reduced to the 22 said variables. In fact respondents are asked to provide their estimations of a target's reliability, integrity and openness etc. At their best, these methods provide 'unwieldy scales and models that aim to include any possible aspect of trust' (Möllering, 2006, 140). For an example of the extent to which researchers attempt to reduce a slippery research object, in a review of causal variables leading to trust, Ferrin (2003, in Lewicki et al., 2006) provided over 50 elements which could be either direct determinants of the level of trust in a relationship or co-variants with the level of trust.

It is for these reasons that I have eschewed adopting any one model described in Part II and chosen to use the more 'open' typology of Möllering (2006) and Lane (1998) as a theoretical lens to guide my investigation and reflections.

Part 2: Doing Research: The Arve Valley Industrial District

This thesis addresses the gap in the literature described above by examining the creation of trust in a dynamic industrial district in the south-east of France. The Arve Valley (*Technic Vallée*, see map 1) is a dynamic industrial district situated between Geneva and Chamonix-Mont Blanc. The Arve Valley is one of France's few industrial districts (Ganne, 1992). It is a metal working, bar-turning or screw-cutting district centred around the small town of Cluses and its surrounding villages such as Scionzier, Magland, Marnaz (Gide and Houssel, 1992).

Bar-turning is the best translation for the French word *décolletage*. Bar-turners are in fact lathe operators who originally cut screws and precision parts for the Swiss watch industry (Geneva is situated 50km away, see map 2).

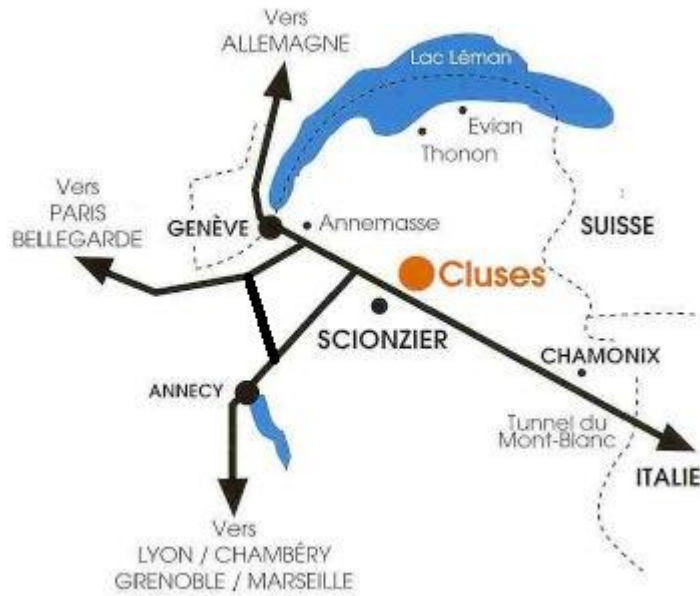
The district dates its origins from 1720 when Claude Ballaloud set up a small watch-making workshop near Cluses after being trained in Nuremburg. Production was sent to watchmakers in Geneva, Neuchatel and Besançon. By the time of the French revolution

there were already 115 watchmakers and over 1000 workers. The Royal Watch making school was set up in Cluses in 1848.



Map 1: The Arve Valley or *Technic Vallée*

The word *décolletage* comes from the technique of removing metal from the top of a screw (the *col* or collar) down to the screw's point and was introduced to the valley by Cesar Vuarchex in 1873. Vuarchex's primary market was the nearby Saint Claude comb making district in the Jura (60km north-west of Geneva). These techniques were copied by other families in the district. Machines at this point were powered by the many small streams descending from the surrounding hills. Three factors contributed to the growth of the district during and after the First World War. Electricity was becoming available to district entrepreneurs, the automobile constituted a market and a means of facilitating distribution and the French government ordered large quantities of arms from the region as it was relatively safe from the ravages of the western front. The major growth period occurred after the Second World War when the valley diversified its production, supplying industries such as automobile, television, telephone and electrical and electronic equipment and so on. A 1968 survey by the local Chamber of Commerce shows the explosion of start-ups. In 1968 4% of firms had been set up before 1944, 42% between 1945 and 1954, 28% between 1955 and 1960 and 26% between 1961 and 1967. As of 1974, 603 firms employed 9 416 employees. 60% of these firms had fewer than ten workers (Gide and Houssel, 1992, 200).



Map 2: Cluses and Scionzier

The valley was transformed in the 1970's by the arrival of numerically controlled machines which reduced the need for labour but permitted smaller production runs and more precise machining. The 1973 petrol shocks reduced demand overall and some clients such as the automobile industry started introducing modern production techniques such as 'zero stocks' and 'zero defaults'. These developments put pressure on the bar-turner's margins and for the purposes of this study, new production techniques modified the relationships between the major clients and their sub-contractors in the valley. As industries such as the automobile industry started to squeeze prices and reduce delays, the bar-turners found themselves at the end of a long chain where they were expected to be flexible and maintain a 'safety' stock at their own expense (Gide and Houssel, 1992).

Today the heart of the district is comprised of 275 bar-turning firms (code NAF 25.62A) supported by a variety of specialist supplier firms and institutions, such as raw material and machine suppliers, surface treatment firms, research centres etc. 91% of district bar-turning firms are small or very small companies with fewer than 50 employees. (Source: Diane database). The valley firms clearly dominate the French bar-turning industry (see table 5.1 below).

	Number of firms	Sales (millions euros)	Employees
Arve Valley	275	952	7 877
Total France	480	1 477	12 464
% Valley firms	57%	64%	63%

Table 14.1: The dominance of Valley firms in the French bar-turning industry (Source: Diane database, figures are for 2009 financial year)

I interviewed 20 small firm owner-managers of bar-turning firms (see appendices 1 for a summary of managers met and data set for interview transcripts) out of a total of 275 (i.e. approx. 7% of bar-turning firms in the district). The sample is in one sense a sample of convenience – I interviewed small firm owners who accepted to spend approximately one hour in a semi-directive interview. I contacted about 70 firms but a majority declined to spend time meeting me. Despite this, the respondents form a coherent group. Only three of the 20 companies were run by what one could call ‘outsiders’; people who had not been raised and educated in the valley. 13 of the 21 companies were family firms, some in their 5th generation. 7 of the 21 were run with members of the close family, either siblings or in one case, cousins. The one firm which is an exception is Anthogyr. It is a larger firm with almost 200 employees and has developed its own line of products (drill bits and implants for the dental industry). I have decided to keep Anthogyr in the data set because bar-turning still accounts for 20-30% of its turnover and it is a family firm run by the son of the founder. This person was trained as a bar-turner and has extensive experience and knowledge of bar-turning in the valley.

Part 3: The Interviews

Trust is a difficult phenomenon to observe. If it is defined as being a psychological state, the willingness to accept vulnerability which leads to a decision to make oneself vulnerable, then, in order to study it one will have to be capable of observing manifestations of trust (Rousseau et al., 1998). In other words it will be necessary to observe when actors pass from a trusting attitude to taking action based on trust. To further complicate matters, suspension implies making the decision to trust in the very absence of

concrete proof of trustworthiness or certainty. When asking direct questions about why a respondent trusts (or trusted) in a specific situation researchers are, in many ways, asking respondents to explain an action which, by definition, cannot be fully explained.

V.3a Semi-directive interviews

Semi-structured interviews were the preferred choice of data gathering because I wished to obtain detailed knowledge of bar-turners attitudes and beliefs. The questions were by definition complicated and I needed to be able to probe a particular point, reformulate others and modify the order of questions (Saunders et al. 2012).

Direct questioning about trust such as ‘why do you trust this or that company/individual’ runs several risks. Respondents may choose to talk uniquely about trust-based relationships, thus depriving the researcher of the possibility of examining mistrust. Distrust or cases where trust has been broken may not be evoked because of inhibitions concerning talking about socially unacceptable behaviour, judging peers or denouncing ‘colleagues’ to a stranger. Respondents may rationalise and justify trust decisions *ex post* according to ‘proofs’ of trustworthiness which weren’t available to them before the decision. Respondents looking for ‘good reasons’ to trust (or to explain their trust) may fall back on seemingly rational responses such as ‘they’re technically competent’ for example. This case is illustrated in Oba and Semerciöz’s (2005), explorative paper (11 interviews including 5 owner/managers). They argue that managers in Istanbul’s textile district base their trust decisions on the reputation and technical competence of possible partners. Similarly, Mckinnon, Chapman and Cumber (2004), note that trustors trust on the basis of reputation and competence (i.e. evaluating trustworthiness from information obtained through networks and observation). One could however question such results on a methodological basis. Managers may rationalise past decisions according to two obvious criteria for trust; technical competence and third party references.

Respondents may see trust in uniquely inter-personal or process terms (Deakin and Wilkinson, 1998), i.e. ‘we’ve been working with them for years’. They may simply take trust for granted, as discussed above, and will find it difficult to describe an attitude that is part of the fabric of their normal, everyday life or role. Equally, if norms and values are interiorized through socialization processes, one could hardly expect managers to explain

(justify) their decisions by referring to implicit, socialised institutions that for which they may not possess sufficient distance to recognise (Luhmann, 1979). The salient point about norms and conventions is that the agent may not be fully aware of their influence on their behaviour (Hogdson, 2006).

In order to avoid these methodological pitfalls and develop a coherent context of trust creation in the district, I avoided mentioning the word trust (as did Oba and Semerciöz, 2005) in order to avoid influencing the respondent's answers and falling into the traps described above. I focused on problems that had arisen between bar-turners, their colleagues, suppliers and clients because the question of trust may only arise when it is 'put to the test', that is, when unforeseen problems or misunderstandings arise, (Möllering, 2006, 188). 'Suppliers will only find out how trustworthy the customer is when short term interests favour betrayal', (Humphrey and Schmitz, 1998, 50).

I looked to elicit anecdotes and attitudes about the SME's relationships with different exchange partners through open-ended, semi-directed interviews of one to one and a half hours.

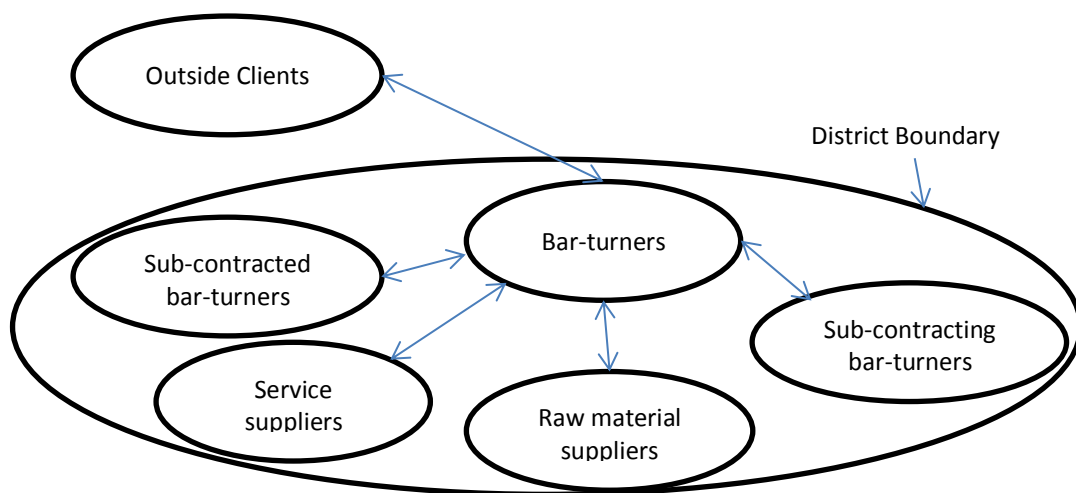


Figure 3.1: The different exchange relationships discussed and analysed using content analysis methods.

The exchange partners evoked by SME owner managers could be divided into three groups; 1) other, similar small *décolleteurs* used as subcontractors, nearly always situated in the Arve valley, 2) suppliers, generally local suppliers of specialized services such as

traitement de surface, reprise (reworking pieces to more exact specifications) and *traitement thermique*, and, 3) clients, which were generally, though not exclusively, situated outside the valley. I looked to investigate in particular aspects of problems, doubts and incertitude concerning the different relationships where the behaviour of partners differed from 'normal business' and therefore called into question the relationship and could reveal aspects of trust in the relationship.

The interviews took place over three years between 2009 and 2011, the majority, 12, during 2009. In some ways this was a fortunate time to be conducting research in the valley. The financial crisis had caused a severe drop in demand across a variety of industries, notably the automobile industry. This meant that orders were cut back drastically, frequently without notice, and bar turners were left with stocks of finished pieces which were client specific. As will become apparent in the results and discussion below, this question of stocks goes to the heart of the question of trusting clients and indeed is an excellent illustration of Möllering's and Humphrey and Schmitz's quotes above about trust only becoming an issue when problems arise.

V.3b Level of analysis

On the importance of determining the correct level of analysis in trust studies, Grossetti (2008) notes that 'too many authors tend to proceed as if members of firms behave in a manner completely determined by a firm's strategy and internal hierarchy. Others prefer to focus on the level of the individual, presenting firms as dummy entities with no real impact on their members', (p629). I aim to avoid this problem by interrogating owner/managers of small and very small firms, who tend to see the firm as an 'extension of themselves' or a personal affair (Torrès, 2002). This research modality conforms to my epistemological stance of trust as being an individual level phenomenon (Zaheer et al. 1998, Lorenz, 2001), which emerges from social interactions (Granovetter, 1985, Powell, 1990).

'Ultimately, the decision to trust must occur at the micro-scale where agents evaluate and consider the risks, benefits, performances, and institutions influencing a particular exchange relationship or social interaction' (Murphy, 2006, 440).

As firms in industrial districts tend to be small, nearly all decisions are made by owner the owner/managers. In particular, the owner/manager of a small firm dominates the external relations of the firm (Johannisson, 2000, in Oba and Semerciöz, 2005).

V.3c Conducting Interviews

The interview guide is provided in appendices 3. I framed our questions around the following themes which seemed relevant according to trust and district literature.

I began interviews by asking about the personal history of the manager. This question was an attempt to understand the individual's personal story and apart from anything else it seemed a polite way to begin the interview. If they were from the district, it allowed me to continue discussing important events in the manager's training and professional experience. Where did they go to school, did they have any family members involved in bar-turning, where they got their first work experience and so on. This allowed me to situate the individual in a social context and provide clues as to how much information a manager had about other firms in the district (e.g. 'I went to school with such and such', 'His parent's live just over there', or 'We were in the ski club together'). At the same time as helping me understand the level of embeddedness of the agent, this line of questioning provided interesting insights about how bar-turners identified with their craft and their district, ('I'm a son of a bar-turner'. One interviewee pointed out the barn where his great grandfather had started the family firm). Around July 2009 I pursued a line of questions about the difficulty or not of bar-turners and/or their children having problems getting internships in competing firms because competitors feared 'spying'. This question introduced the idea of trust between bar-turners based on one of the stronger norms of the district which is 'do not divulge the names of your clients in case a competitor poaches them'.

If the manager was from outside the district, I developed the questioning along the lines of the difficulty or not that they had to become integrated into the district networks. This gave some interesting pointers to the closed nature of business in district networks. Of particular interest was one manager's attitude towards 'insiders' as although she was born in the valley, she had previously worked in another sector until buying out a company with her husband. She was from the district but a stranger to the industry.

I then proceeded to discuss questions of horizontal links between bar-turners. These sub-contracting arrangements where work is given out without formal contracts and the protagonists may change roles from client to supplier form a central role in the creation of trust and demonstrate the high level of interdependence between the local firms. Other questions around this theme were based on the frequency of this type of arrangement, how many partners a firm used, how the firm found their partners, what problems arose (if any) and so on. I spent some time discussing the negotiations surrounding the prices for this type of work because answers revealed just how much information bar-turners possessed about other firms and lead me to discovering the norm of a 'fair price'. In order to understand initial conditions for making a trust decision, I asked managers how they chose a bar turner as a sub-contractor, what sources of information they used, how they started the relationship, and how they verified the trustworthiness of a new supplier. This proved rather difficult because the economic downturn had reduced work for everyone and sub-contracting out was reduced accordingly. Also many sub-contracting links were extremely long term ones, over several generations, which meant that managers couldn't always remember the starting point. However I did find one or two examples of interest.

After this, I asked an open question about problems that bar-turners had experienced with suppliers. This question could be assimilated to the critical incident technique described by Bryman and Bell (2011), except for the fact that this was not the central pillar of our interview. There are essentially two types of local suppliers which interact intensively with bar-turners. Heat treatment firms who harden a part between two manufacturing operations, and surface treatment firms who may coat a part in zinc or another metal to modify the physical properties or the colour of the part. Surface treatment firms may also remove asperities and polish up parts. Frequently I went into some detail about the problems encountered and how those problems were resolved. In this I was attempting to reveal 'the rules of the game'. At this point I perplexed more than one bar-turner by playing the 'devil's advocate'. I frequently suggested that a supplier could cheat or take shortcuts at a given moment in the process (for example by heating the part to 300°C instead of 400°C for a shorter period of time and thus saving costs). Remarks of this type were frequently met with blank stares or comments such as 'Why would they cheat?', which showed that in general the sample did not consider opportunism to be a particular

problem in the valley (all suppliers are local). More than once I had to stop this line of questioning because of the risk of ruining the cordial aspect of the interview.

The final series of questions concerned relationships with customers. It should be noted that most suppliers are in the valley while most clients are outside. I discussed negotiation techniques of outside firms and the rise of the professional buyer compared to a technician who is promoted to the purchasing function. It was not until the 7th interview (Mme Manager 11, Durandard) that I came across an element that is a central factor in the relationship with outside clients; that of the fabrication and storage of a buffer stock. This is why 2009 was a fortuitous year for this research because clients suddenly stopped or reduced orders and many bar-turners were left with unpaid and unsalable parts on their hands (approximately 10% of turnover). This question of stock was a clear manifestation of trust (otherwise how else could one explain it? Naivety? Blind trust?), as I shall discuss below.

During the period of interviews I became more at ease in discussing the major themes described above as I felt that I had in some ways reinforced my knowledge of the district and the creation of trust in a iterative process of field work/theoretical reading which helped me understand and ‘position’ interviewees statements in the light of district and trust literature.

It was after 4 or 5 interviews that I discovered the question of fabricating stocks for clients and realised that this might be an important manifestation of trust. I then modified my questioning accordingly. This question of manufacturing stocks was far from a marginal question and it was after about 10 or 11 interviews that I realised that nearly every bar-turner had seemingly followed this policy towards clients (some obligingly informing me that they had verified that others had done the same) and all their story of approximately 10% of sales figures tied up in unsalable stocks. It was the repetition of similar stories (and the 10% figure) that made me realise that I had come across an important phenomenon in the valley at about the 15th or 16th interview.

Part 4 Analysing Data.

The primary purpose of an inductive approach in research is to reveal findings and insights from frequent, dominant and significant themes which emerge from the raw data, (Thomas, 2006). A general inductive approach looks to condense extensive raw data into brief summaries of the main themes. According to Thomas (2006), it looks to establish clear links between the research data and research themes, making these links transparent and defensible.

I have followed Thomas' (2006, 5) 5 guidelines in the analysis of transcripts:

- Data cleaning or organizing transcripts
- Close reading of the text in order to gain an understanding of themes and details
- Creation of categories on two levels. The upper levels correspond to categories derived from research aims (information, rules etc. in our case). Lower categories are created from meaning units or actual quotes used in transcripts (indulgence for example).
- Overlapping coding and uncoded texts. Not all of a text can be used and one segment of text may be used in different more than one category.
- Continued revision and refinement of category system. Categories can be combined or linked under a superordinate category (for example, sources of information and transparency in our case).

Part 5: Data Transcription, Checking and Codifying Data

The interviews were conducted in French, (I have lived and studied in France for many years and possess a high level of written and spoken French), then transcribed by myself, my eldest daughter or by a (French) friend of the family who, being unemployed at the time had the time to spare. Each interview lasted between one and one and a half hours, and transcriptions took approximately between 5 and 8 hours per interview. I was in constant contact with my two transcribers if they needed help on technical terms or couldn't understand proper nouns.

My choice of upper level categories (Thomas, 2006, Saunders et al.2012) was derived directly from trust and district literature. For example a major theme in both literatures is the idea of information facilitating decision making (in trust) and information flows reducing information asymmetries (thus creating the conditions for trust) in districts. Therefore information (sources and transparency) became my first and major upper level category and is easily justified by the two streams of literature.

Transcripts were then read (and reread) and all references to, say, sources of information were underlined and then recopied with the appropriate page numbers added for reference. Lower level categories (actual quotes) were then entered into the results tables (in appendice 2).

This process allowed me to make linkages across interviews and permitted the evaluation of district wide phenomena rather than exceptional elements which may have been one off. This was the process that revealed the importance of ilunga. I noted this ‘three strikes’ rule for one interviewee, then was surprised to find that three different managers spoke of their conflict management habits or techniques in strikingly similar ways. It was from this cross referencing that I discovered other notions of indulgent behaviour in intra-district relationships.

My analysis tables for each interview can be found in appendice 2. These tables formed the basis for the findings and discussion detailed below.

Part 6: Ethical Considerations

Saunders et al. (2012, 231), provide a short list of ethical considerations to take into account. I shall review some of the relevant points here.

I contacted possible managers in the Arve Valley by telephone explaining that I was working towards a thesis (originally) with a local Lyon university. I mentioned that I was interested in inter-firm relationships in industrial districts. When discussing these questions during the interviews, I had the distinct impression that interviewees considered my research purely academic and very remote from their daily preoccupations of running a small business in a difficult context. As such, ethical questions of, for example, anonymity

and publication of results were not raised. This may be my fault, but in this French context, I do not know of any university or business school which proposes or imposes an ethical annexe to a research protocol. Verbal assurances seem to be the cultural norm in French social sciences and managers seemed perfectly happy to answer my questions openly and honestly (as far as I could gather). I also made it clear that they were free not to answer any particular question if they felt that the answer would be 'indiscreet'. Some managers declined to give me names of opportunistic firms that couldn't be trusted ('bandits'), but still provided information of their behaviour.

I have endeavoured to be as honest and transparent in my research. Part of my motivation to obtain a doctorate in business studies is for professional reasons, so it is very important for me on a career level. However another very strong motivation is the 'intellectual voyage' that such an undertaking entails and the intellectual stimulation that I derive from this type of research. I would not countenance 'cheating' or dishonest misrepresentation of research data to further my academic career just as I would not countenance taking performance enhancing drugs to win a cycling race as glory without honour has no value. I can provide two examples where I have been scrupulously honest with my research data. One owner interviewed provided a magnificent example of internalised norms when she asked me 'why would they cheat?', when we were discussing licit and illicit behaviour among bar-turners. I know she said this but it must have been off record because I cannot find the quote in the transcript. I have reluctantly excluded it from the results section. In the same vein, I am not entirely sure whether Manager 12 used the expression 'white knight' or 'white horse' in our conversation and I have recorded my doubts about this (although one makes sense and the other doesn't).

Respecting interviewees is an important part of this type of research and all interviewees were respected during the interviews and not pressured or threatened by my presence or (very polite) insistence to interview them. I stressed that I was conducting research for a thesis and that I was trying to analyse relationships between bar-turners and their partners. When an interviewee refused to answer a question or provide details (about firms that cheated) I did not pursue the issue.

There is one area where I differ from the ethical considerations outlined by Saunders et al. and that is the naming of the correspondents. They simply didn't care if I used their name

or not. In fact academic research published in English is so far from their daily lives that their comments on inter-relationships will not impinge on their business life. However I did feel that several were on their guard at least initially during the interviews and I felt that they were limiting their remarks to non-controversial statements. One exception to this was their frequent refusal to give the names of their clients or other valley firms with bad reputations. In the rare cases where someone mentions a client's name I have masked the company's name.

Part 7: Limitations of this research

Qualitative interpretive research is frequently criticised on terms borrowed from quantitative or positivist research, such as external and internal reliability, and internal and external validity. (Bryman and Bell, 2011, drawing on LeCompte and Geertz, 1982). However these criteria derive from a very different epistemological stance than the interpretivist approach (Bryman and Bell, 2011, drawing on the work of Lincoln and Guba, 1985, and Guba and Lincoln, 1994).

V.7a Generalizability

This type of inductive research with small samples and qualitative research is open to the criticism of generalizability. To these criticisms, I would say that my objective was to understand this particular context of trust creation in this place and time. Inductive research moves from the specific to the general (Saunders et al., 2011). My conclusions derived from this research may not be directly transferable to other districts or other trust creation situations, but they will I hope provide insights which allow us to better understand, manage and study the phenomenon in other contexts.

V.7b: Reliability

In terms of external reliability, the difficulty in repeating the research in this district, I have already mentioned that the recession of 2008/2009 was an interesting time to examine relationships in and around the valley. Rather like a receding tide exposing rocks and previously unsuspected reefs, the recession revealed to bar-turners the risks of

manufacturing buffer stocks without written contracts and so this context did reveal trusting behaviour.

As for internal reliability, my questions during the interviews were derived from what I have perceived as important points arising from the relevant literature. Nevertheless they were *my* questions rising from *my* understanding of the literature. Another researcher may have had other questions to ask according to their experience and knowledge. One of the most fascinating parts of the experience of interviewing managers was hearing answers and remarks which corresponded and validated concepts that I had read in the literature. This reveals the complexity and difficulties related to conducting in-depth interviews. I was constantly (at the beginning in any case) oscillating between thinking about the point raised by the manager in relation to key concepts and the necessity of keeping the conversation moving and not forgetting a major question or missing the occasion to develop a point. The interviewer's experience, i.e. their idiosyncratic subjectivity, in this domain remains a difficult variable to control. I think that internal validity is high in this type of research because of the very rich material revealed by the interviews and its close relation to the literature as will be discussed below. In terms of external validity it will always be difficult if not impossible to replicate this study in other industrial districts. The history and industry structure of each district is unique, as is the particular make-up of the fragmented value chain through which passes the final product. Districts and industries may be experiencing different centripetal and centrifugal forces at different moments in their development such as modifications of their mixture of tacit/explicit knowledge or increased international competition which could lead to the strengthening or weakening of local ties. These factors make the transferability of findings difficult, and indeed a major problem for district/cluster scholarship is the absence of a precise definition of the research object (how many firms a cluster makes?).

Looking at the criteria for qualitative research discussed in Bryman and Bell (2011), credibility is where academic peers could evaluate the acceptability of the research. While it is not my place to judge this criterion, I feel that our results conform to both streams of industrial district and trust literature discussed above. My research will be difficult to transfer to other social contexts and other districts as mentioned above. I should hope however that I have provided a 'thick' and complete description of trust in the Arve Valley. In terms of dependability, the interview transcripts are joined in the dataset and I

have attempted to describe our motivations and choices as much as possible throughout the description of our research. The second group of criteria proposed by Guba and Lincoln in Bryman and Bell is authenticity, which is more concerned with the wider political impact of the research. In this case I could say that a major limitation of the research is the absence of discussion with bar-turners partners, especially their clients. I have mentioned this point briefly above. It would have been very difficult to meet and discuss trust questions with the bar-turners clients because they are very reluctant to supply the names of clients. They may have only given us the names of 'good' clients. Finally logistical problems would have arisen because their clients are situated all over France. However I do feel that coherent set of small company owners gave me insights into the way *they* saw *their* relationships with other partners.

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Chapter VI: Findings

Introduction

My first research question as described in Chapter 5 is to examine whether district literature is correct to assume that there are strong trusting ties between district agents. Following from this question in my second research question; what are the sources and antecedents of these trusting ties. My investigation validates many of the theoretical points made in district literature while at the same time questioning assumptions taken by different authors. The results allow me to compare and contrast trusting attitudes inside the district on the one hand and between valley firms and outside partners on the other. In other words, I was able to compare trust within and across district boundaries and between different organizational levels.

As the construction of trust is a function of the three antecedents combining and working together (Möllering, 2006), I shall then endeavour to highlight the interplay of the three dimensions in the case of trust between district actors as there is more material to analyse in the case of strong trusting relationships developed inside the district.

My findings have unearthed a very difficult phenomenon to perceive: that of suspension as developed in Möllering's work discussed above. When the foundations of intra-district trust are contrasted with the relative lack of foundations for extra-district exchanges, bar-turners, when dealing with outside clients, are seen to trust on shaky ground indeed. Few of the trust antecedents which apply to district relationships are valid in exchanges with outside firms. Yet, in the case of manufacturing buffer stocks, several bar-turners have trusted outside clients with unfortunate consequences. How can one account for this behaviour? It is difficult to say that SME owners were naive or that they trusted clients blindly. What caused bar-turners to make this leap of faith?

When bar-turners are quoted directly page numbers refer the reader to the interview transcripts in the data set. The reader is also invited to refer to the findings tables in appendices N°2 which serve as a basis for the findings detailed below.

Part 1: The Existence of Trust and Cooperation in Intra-District Relations

In addressing my first research question ‘Are there higher levels of trust between district actors’, my empirical investigation of the Arve Valley industrial district confirms the presence of a generally trusting, cooperative environment between small firms and their managers in the district. The examples below will become clearer when I examine the foundations and antecedents of this general trusting behaviour in the succeeding sections.

Very few bar-turners used written contracts for intra-district exchanges, only written orders with a minimum of essential information (prices, specifications and delivery dates) were used between district partners. Contracts were deemed too legalistic and time consuming for intra-district exchanges. They seemed to denote mistrust and run counter to local habits (more of which later) such as ordering raw material by telephone from their local bar suppliers (Manager 6, p75). Manager 6 (p75) considers that there is more to lose from going to court than by seeking a compromise.

Three companies interviewed were part of cooperative GIE²⁰, (Manager 5, Manager 6 and Manager 10). Several GIE exist in the valley. Manager 6 joined a GIE in order to develop his local network in view to accessing information (p76). Manager 5’s partners in her GIE frequently lent each other tools. But such a small number of formal cooperative agreements among more than 275 bar-turning firms demonstrates perhaps the limits of bar-turners’ willingness to cooperate, or at least their resistance to creating formal agreements as against loose, unwritten ones. The three GIE that I know of were created in order to obtain lower prices on raw material supplies and were restricted to this goal. The succeeding stage would be to unite to obtain larger orders, export products etc., but this has not happened. Possibly because bar-turners consider their clients to be their key resource and as such their names are guarded jealously, ‘we don’t like to talk about our clients’ and ‘each bar-turner protects their clients’. (Manager 11, p137).

Manager 10 (p111) cooperated with two other firms in order to obtain larger contracts and then shared out the work. This was done without formal contracts or indeed much formalism. The orders were partly produced in the smaller firms but invoicing was done

²⁰ Groupement d’Intérêt Economique: a type of consortium which has no capital but allows buying and selling for member firms. Airbus was a GIE set up by its four main suppliers until 2000.

through the firm which had the necessary quality certificates (apparently without the client firm's knowledge). This form of loosely coupled structure based on mutual trust (without a written contract) seems to occur frequently. Parts produced by very small bar-turners without the required quality certificates pass through a larger partner, which, for certification and traceability questions, becomes the 'property' of the larger firm. Manager 4 (p46) does something similar, working with other smaller bar-turners, sharing out the work but invoicing under Manager 4's name because his firm has the ISO norms necessary. Both Manager 4 and Manager 10 trust their suppliers to provide quality parts. They would certainly check the parts before sending them on to their respective clients, but it is they who are taking the risk of losing the client or worse if the parts are sub-standard.

In a similar fashion, Manager 3, p36, shares the cost and risk of stocking specific raw material for an outside client with his local sub-contractor. Small bar-turners are often at the end of a long supply chain (and frequently don't know who the final customer is). As the last and smallest unit, they are frequently expected to assume the risk that accompanies flexibility (De Propriis, 2001). Manager 3 shares this risk with his smaller sub-contractor when, given his exchange position superiority, (client to smaller firm, access to outside upstream client), he could demand or force the smaller firm to assume the totality of the risk.

A Counter Example

Even in the rare cases of opportunism between bar-turners that I found, the offended party seemed to treat the situation with philosophy and leniency. Manager 11 has been working with another bar-turner for several years but always verifies every aspect of every order because she knows that the other bar-turner is a 'character'.

“‘You wrote down 4.50 when I offered 4.94’. She said ‘But didn’t you give me a little something last time?’, I told her: ‘Yes, you told me that the price..., I forget what exactly... was no good. I forget, say, 100 parts for 5.24. So I tell her ‘Yes (I gave you), a discount, but not that much. I said 10 cents and there you’re at 44. That’s not possible.’ So she tells me ‘Well listen, I’ll have a look and get back to you.’ That was this morning! She’s the buyer, but she’s just like the boss. We know him well, he’s 70 and he calls me by my first name. He likes us. He drops by once

or twice a week to say hello and see how things are going. He used to have a big company in the valley, but he's a cunning old boss!' (Manager 11, p42)

And after working together for many years, Manager 11 still checks every order, every invoice with this firm to be sure not to be cheated by this rather atypical character. But Manager 11 will not accuse him of cheating. She will even go to some lengths to imagine reasons why he behaves in such a way.

Part 2: District Competition or Lack Thereof

Examining interview transcripts reveals an interesting aspect of district managers' world view. Very few respondents mentioned the word competitor during an interview, except to draw attention to competitors in Romania and China. Apparently there is competition between district firms but no competitors in the district. Local competition exists but is tempered because 'even with this recession, there is enough place for everybody' (Manager 6, p66). Manager 2, p27, doesn't consider other bar-turners to be direct competitors. Other manifestations of this non-competitive attitude are common. For Manager 4, p45, a sub-contracting firm is a neighbour not a competitor. Manager 9, p103, considers that his neighbour is a colleague not a competitor, while Manager 7 described that during disputes with (local) suppliers such as surface treatment firms, he looks for equitable solutions because the goal 'is not to get rich off the back of a supplier' (p78).

These declarations of non-belligerence could be explained through district transparency providing sufficient information to allow managers to find market niches where a start-up, or small firm could avoid direct competition. This facilitates the occupation of small, competition free niches which may be exploited and defended through the acquisition of tacit knowledge. 'To each his own speciality' according to Manager 10, p109.

When a start-up solicited Manager 11 for sub-contracting by way of a fax sent (presumably) to several local bar-turners, Manager 11 (p133) mentions two elements of their sales argument; 'the company was about three months old', and 'their machines were like that', i.e. she remembers the particular operations and types of parts those machines were capable of doing. Bar-turning is a craft industry with a high component of tacit knowledge. As an example of flows of tacit knowledge, I have found two cases where bar-

turners passed on information to other bar-turners. Managers 13 and 12 helped their sub-contractors to make parts by giving them technical information. Avoiding direct competition facilitates cooperation and trust ‘because even now, with the recession, there is enough work for everyone’ (Manager 6, p66).

Part 3: The Antecedents of Trust: Reason

VI.3a: Information, Transparency and Calculation

Our second research question relates to the analysis of the three antecedents or foundations to trust to trust creation. A major ambiguity in the literature addressed above in our review of the literature is the question of calculation or rationality as one of the foundations of trust in industrial districts.

Let us start with family and social networks. Manager 2 (p21) perhaps provides an exaggerated example of family ties overlapping business relationships;

‘Jean-Claude (a bar-turner) is the father of the wife of one of my friends’.

Manager 6 (p69) does better but lacks coherence;

‘he’s a cousin. He married the daughter of an aunt who was our cousin’.

Manager 17 started a ski club in the town of Cluses where several bar-turners would meet up regularly. Manager 11 (p133) was at school with Manager 15 (as was Manager 13): ‘His parents live in that house there’²¹. Most of our interviewees were trained and educated in the valley (there is only one *Lycée Technique*).

On the professional side there are also several sources of information. As the turnover of skilled workers is quite high, firms occasionally poach workers as Manager 12 noted (p151). He doesn’t hesitate telephoning another bar-turner to find out why a worker wishes to change firms. Bar-turners may have clients, subcontractors and suppliers in common

²¹ Manager 11’s workshop is situated in a housing estate dating from the 1930s.

(Manager 2, p23). In the past, according to Manager 12 (p148) the labels on batches of parts (laid out in full view) at the surface treatment or transport firms were masked to stop a 'colleague' learning your clients name and address. Machine producers organize information evenings where they help clients resolve technical difficulties. The research centre in Cluses provides technical training, databases, technical solutions etc. to member firms. All these information sources cross over and are mutually reinforcing. They facilitate the taking of decisions and conform to a 'standard' description of information flows in a dynamic industrial district.

It would be an exaggeration however to say that everyone knows everyone. While Manager 9 looks for a new supplier by word of mouth, several bar-turners interviewed, and manifestly well integrated into local networks such as Manager 6 or Manager 2 for example, use local trade directories to find new sub-contractors with specific machines and skills. The director of the local cluster initiative invites 6 or 8 bar-turners to lunch every Tuesday and is frequently surprised to find that they do not know each other, except 'by reputation'. Pertinent, up to date information (notably about reputation) about potential partners does circulate in the valley, but there would appear to be enough doubt and uncertainty to necessitate calling upon trust.

The much repeated idea that 'everyone knows everything and everyone in the valley' acts as a brake on opportunistic behaviour.

VI.3b Transparency

The transparency in the district is derived from the combination of the different forms of proximity discussed above. It has positive and negative connotations for the construction of trust. Firstly many bar-turners dislike the 'fishbowl feeling' that it engenders and leads them to suspect others' motives;

'There's a type of scrutiny, always knowing what the other guy is up to, maybe to steal his client', Manager 6, p67.

Manager 8, born in the valley but new to the industry, feels that;

‘outside (the district), they respect us. Here, the people from here don’t respect you’,‘because they want you to work for nothing’, ‘It’s people who are looking for a very low price’ (p90/91).

What Manager 8 is referring to is the practice of some intermediaries or sub-contracting bar-turners to call around the valley offering work at very low margins hoping to come across a firm in need of work. What Manager 8 doesn’t say (or realise) is that these firms can offer low prices precisely because they know the cost structure of the smaller firms to a very high degree. ‘We know how to calculate a price; we’re all more or less close’ (Manager 17, p205). When sub-contracting work out to other bar-turners, Manager 7 (p81) doesn’t need to discuss prices because;

‘Well, they’re smaller than we are, and if we take 20% of his price, we deliver the raw material, we do the plans, we prepare all the work for him’.

Organizational proximity means bar-turners know the price of machines (and their rates of amortization), firm structure and corresponding labour costs, supplier costs, rents, other overheads and, of course, the approximate margins practised in the valley for this or that kind of piece. Finding clients outside the valley (it is Manager 8’s wish to export more), means escaping this price pressure. Manager 16 distrusts outside clients who audit valley firms precisely because they’ll ‘know everything about the fabrication of the part’, (p196).

On a more positive note, this transparency can provide a ‘can do’ entrepreneurial spirit; ‘knowing that other firms can manufacture it, we should be able to manage it’, Manager 16, (p200).

Transparency (or low information asymmetries between bar-turners) is decidedly a two edged sword. Trust is enhanced when it limits opportunism; ‘a price too high would be seen straightaway’ (Manager 17, p205), or ‘when someone says that part there costs 2 euros, I know if the guy is lying or not’ (Manager 7, p84), ‘I know exactly how much each operation costs’, (Manager 6, p71).

In the same vein the craft of bar-turning facilitates transparency because of its 'concrete' nature: it is easy to verify the quality of a piece and its dimensions and seems to be rationalised as an honest occupation where it is impossible to cheat.

'He (a supplier) works according to plan which you give him. It (the part) either matches the plan or not. If it fits, we pay. If it doesn't...well', (Manager 17, p209).

This is a common theme in discussions about sub-contracting relationships between bar-turners, the supplier bar-turner has no choice but to provide 'honest' work because the quality of a part is easy to verify according to Manager 2 (p23);

'...the nature of our work, is easy to check.... either it's done or it's not done. It's black or white'.

Transparency and information flows mean that local exchanges are honest and above board. Locals are trustworthy partly because they can't cheat on prices and can't make short-cuts on quality. But would taking a short-cut even occur to a bar-turner?

VI.3c Encapsulated trust

Bar-turners do not possess their own products or brands; 'we don't invent anything', (Manager 2, p27). They depend uniquely on upstream clients in the value chain and other bar-turners. Accepting work from other bar-turners provides income and, at the same time sub-contracting out to bar-turners means increasing one's production capacity and/or one's range of products. In both cases out-sourcing work would lead to increased customer satisfaction from increased flexibility (faster production and a larger range of products from the 'same' source). Sub-contracting to fellow bar-turners is therefore a critical element of a small firms competitiveness and profitability, whether the firm is sub-contractor or sub-contracting. Bar-turners recognise this interdependence between local partners;

'We need you and you need us. It's win-win, we work like that' (Manager 12, p162)

Or Manager 6 (p76);

‘I have a lot of clients who are occasionally my suppliers, and there we are on an equal footing because we need each other’.

‘The person (the other bar-turner) is like me, he plays the game’, Manager 8, p92

Both players have a very clear interest in playing the game as long as possible. No surprise therefore that bar-turners accord each other, and agree rapidly on a ‘fair’ price (i.e. one which includes a fair margin); the long term advantages of cooperation outweigh short term gains from haggling over prices (and as mentioned above, they know each other’s cost structure). Manager 8 illustrates this idea of giving a ‘respectable’ margin which is obtained from an outside client (who may not know local costs);

‘The partners I work with (i.e. outsource to), I give to the neighbour, I take 30%’, Manager 8, p90.

It is a perfectly rational and a calculated trust decision to give and honour trust in this situation of encapsulated trust. One’s reputation is enhanced as someone who ‘plays the game’ and the corresponding bar-turner follows exactly the same logic

VI.3d: The Start-up

When Manager 11 (p134-135) was looking for a new bar-turner supplier, she answered a fax from a local start-up. She understood the importance for this young company to show their efficiency and competency. She had no doubts that the two young entrepreneurs would want to prove their capabilities during the fabrication of a small trial order;

‘Of course, they were looking for clients. It was interesting for them’ (Manager 11, p134).

Since then the two firms have become suppliers and clients for each other. The sub-contracting firm knows that the start-up needs business and after following the selection and testing process described below, seemed comfortable in trusting the new company because of the need of the new firm to develop its own network. The geographic proximity

of the new firm seemed to contribute to the decision to take them on as new sub-contractors in two ways. Firstly, being nearby reduced the effort, time and money necessary during the visiting and testing process (and in the management of the relationship – more of which later). Secondly, being a member of the district seems to have had a spill-over effect in terms of reputation: districts firms know their trade and the sub-contractors were aware of the reputation of the firms where the two entrepreneurs used to work (in terms of quality and ‘seriousness’ at least).

The logic of evaluating trustworthiness from their interests applies to suppliers as well. Manager 4 had some problems with a surface treatment company and had to change suppliers. The new supplier had just started trading and the order of 100 000 parts per month was a comparatively large order. Manager 4 was able to negotiate a good price for this order.

The same logic of encapsulated trust also leads to distrust. Surface treatment companies in the valley have been consolidating in recent years as more stringent European pollution directives increase capital costs and limit new entrants. Some larger bar-turners have bought out local surface treatment firms. Other bar-turners find themselves obliged to trust these larger firms essentially through lack of options, even though they can see that their interests are divergent. They suspect these larger surface treatment firms to privilege their relationships with the larger valley firms who have longer production runs and at the same time they fear of being penalised by new practices such as minimum order fees etc. which handicap firms with smaller production runs.

Manager 18 (p222) is wary of this concentration of a key supplier industry;

‘The worry is that when we send parts to ‘M’, they’ll see the part and say ‘Where is this from? We could do it our bar-turning workshop in our group’. It’s a bit annoying. And they didn’t think of that’

Part 4: Routine: Institutions

Introduction

I shall begin the question of routines and institutions by examining the community or team spirit in this tight-knit community with reference to some local norms and rules. This ‘spirit’ or sense of belonging leads us to the question of identity and role. In turn identities and roles leads us to questions of homophily and isomorphic pressures in the creation of trust.

VI.5a Community or Team Spirit

It is not surprising to see a strong ‘team spirit’ in a fully functioning, mature industrial district with a large number of family firms which have been passed down over two to five generations.

Bar-turners define themselves as ‘sons of bar-turners’ (Manager 20, p238). Uncles, aunts, cousins, brothers, sisters, godfathers etc. have worked in the district as bar-turners for several generations. Manager 6, from the window of his factory office (built in 1988), can point out the hillside shed where his maternal grandfather started the family business. Manager 9 showed us the first invoices typed out by his grandmother (sitting below on a shelf is the typewriter she used).

Community or team spirit is shown towards other bar-turners. Manager 15 (p185) tried to find another bar-turner to complete a contract when he realized he didn’t have the expertise, this so that ‘the work stayed here (*chez nous*: in the valley)’. This mutual assistance seems very common. Manager 13 willingly, and without negotiation or indeed expectation of an immediate payback, passes on tacit information about how to manufacture a piece to a sub-contractor. This ‘community spirit’ is found frequently in the way that bar-turners work harmoniously with others. Manager 5 (p62) works with a network where there are 10 companies, and ‘the rule is not to make problems for one another’.

But this 'team spirit' was put to the test during the sharp drop in activity during the recession in 2008/2009. Some bar-turners adopted the strategy of drastically reducing their prices and working to cover their costs. Once the storm had passed, they negotiated increases in prices back to profitable levels. Both Manager 11 and Manager 12 disapprove of this strategy. Partly because it puts pressure on their own margins and therefore increasing competitive pressure, but partly because it wasn't considered an honourable strategy, would annoy the clients and give the valley a bad name. Manager 11 (p136) terms her disapproval in terms of the inconvenience caused to the clients reflecting that such behaviour sullies the valley's reputation;

'Yes, the machines are paid off and amortised, but it's not the solution. It's often these people who, after, when business picks up, they'll say to the client: 'I can't do these pieces anymore at that price'.

Q: And the clients?

Manager 11: They aren't very happy. We don't work like that'

Manager 12 (p149) considers that he would have difficulties working with these bar-turners who have shown 'disloyal competition';

'Following that we were in the recession, lots of economic problems, and there were people who made quotes that they shouldn't have made. They went too low to get a client's order and get some volume. An entry ticket if you like. So, to enter, you drop your prices and aim low, and you take work from...that's what happened.

Q: What do you think of that? When business picks up again, they increase their prices. Would you be willing to work with them again?

Manager 12: No the link is broken.

Q: Do you trust them anymore?

Manager 12: Well no. There's a certain ethic to be respected in the profession. I know alot of people, not everybody, but a lot of people.

This strong local identity and its corresponding community spirit are apparent in the various types of inter-firm cooperation described above.

VI.4b Norms and Values

Local norms created by the community contribute to group cohesion in that they permit agents to align expectations of permissible behaviour. I can quote three local ‘rules of the game’. Don’t steal a colleague’s client directly (i.e. by deliberately contacting the client and proposing a better price as opposed to ‘loyal’ competition, i.e. being contacted by a prospective client). Don’t poach other district firms’ skilled workforce. Finally, don’t reduce prices during an economic downturn. It is worth remarking that the rule about not stealing a ‘colleague’s’ client was very clear and unambiguous. However, many managers noted that it was extremely difficult to know if the rule had been broken. How could a manager know that another had contacted a client directly or whether the client had asked several valley firms to bid for the work? When asked if they knew of firms who had broken this norm, managers replied yes, but refused to divulge names.

VI.4c Fairness and Honesty

When bar-turners sub-contract out work to each other there seems to be little discussion about prices. A ‘fair’ price was proposed. A price which included an ‘acceptable margin’ which allows the supplier firm (another bar-turner) to make money from the work. This norm of equity was itself based on information available in the district. Information asymmetry about the sub-contractors costs was very low, as discussed above. The margin shared between the two firms was conditioned by the (outside) client’s acceptance of the sub-contracting firm’s price. Bar-turners accord each other, and agree rapidly on, a ‘fair’ price. But if information asymmetries are very low between the two firms inside the district, they are relatively high between the outside client and the focal bar-turner. This situation means that the focal bar-turner appropriates added value from the client in the form of acceptable margin and distributes this margin among their network partners in the district. A ‘fair price’ therefore is an institution that arises from intimate knowledge of cost structures and a ‘us and them’ mentality where cost structures (and sub-contracting practices) will be hidden from the outside client. The automobile industry’s relentless drive to unveil suppliers’ cost structures and squeeze margins wafer thin is one reason why bar-turners dislike them and consider them ‘disrespectful’ because they do not respect the local norm of a ‘fair’ price and a ‘living’ margin.

In opposition to the automobile industry, one bar-turner talked about the perfect client who doesn't argue too much about prices, demands high quality for a piece which is relatively easy to produce and orders large quantities over several years. Manager 6 (p67) qualified this client as a 'white horse' – *un cheval blanc*. I suspect however that he meant (or it was transcribed incorrectly) a white knight – *un chevalier blanc*, which would correspond better to the idea of the perfect client. This type of client would provide good margins to the focal bar-turner who, if he decided to outsource part of the production, would be able to offer 'fair' margins for the work to his local network. Many fortunes were made in the valley during the 1960's and even later (e.g. Nokia) with this type of client.

The institution of a 'fair price' however, is not uniformly respected across the district as Manager 8's remarks above show, but this norm has the effect of reinforcing trust between local actors by showing who plays the game by the rules and reinforcing an 'us and them' mentality.

Honesty seems to be the accepted *modus operandi* in exchanges in the district. During interviews, I regularly attempted to suggest how supplier firms or other bar-turners might cheat on arrangements. In general my suggestions were met with blank and uncomprehending stares by our interviewees. Heat treatment firms will supply certificates assuring that the piece was heated to a specific temperature (hardening the steel). These warranties are not checked by outside firms but are made as a signed declaration²².

When bar-turners are interrogated about the honesty of fellow district managers they tend to rationalise their assumptions of honesty in a manner which illustrates the interplay between information flows and local institutions. Bar-turners explain the honesty manifest in the district by saying that their industry is essentially 'transparent' and 'obvious'. A piece or component either fits or it doesn't. It is either the right size or it isn't. In other words, they explain honesty not through any higher morality but rather through the perceived impossibility of getting away with opportunistic behaviour.

²² '*sur l'honneur*'.

VI.4d Identity: Defining Ourselves by Defining Others

A community spirit, an us-and-them mentality, as delimiting a local social system, is even more obvious when the bar-turners' image of themselves are examined and they outside groups which are different from 'us'. Creating a group is a function of what we are and at the same time, a function of what we are not. Two 'outside' groups serve as 'counter' references and therefore define what bar-turners are. These two groups are professional purchasers (i.e. professionally trained purchasers who are neither engineers nor technicians) and people from the automobile industry.

Firstly, bar-turners identify strongly with the technical side of their work which has made the valley famous in France and indeed the world;

'Companies in the valley have essentially a technical culture and maybe not a commercial or innovative culture. They're really...these are technicians who are very competent at lathe work.' (Manager 1, p3).

The commercial side of business is important but, 'we are not carpet sellers'²³, (Manager 11 p143).

Finally, what looks homogenous from afar may not always be the case because the definition of local is not always apparent to the outsider. Even inside the Upper Savoy *département*, Manager 10 (p106) thinks that the people in Annemasse are different from those in Cluse (25 km away). Meanwhile Manager 6 (p66) thinks there is a difference between those down the valley in Cluse ('they're more excitable') compared with those in Magland or Sallanches (5 and 15km upstream respectively).

'there is the upper valley and the lower valley. The mentalities are very different' (Manager 6 p66).

²³ 'Nous ne sommes pas des marchands de tapis'. A popular French expression meaning simple bazaar traders who haggle over every penny.

VI.4d1 Professional buyers

Manager 12, (p165), deplores these new types of ‘formatted’ purchasers, who ‘are all the same’ and don’t know the craft of bar-turning.

‘They’re not technicians! Not technicians at all. But it’s deliberate. You can’t ask an engineer... in the past, purchasing was a guy from the research or design department, an engineer, a quality control technician who was promoted to purchasing. He didn’t expect miracles, being a technician’.

‘The purchaser from the big retail chains (Auchan or Carrefour), who arrives in such and such company and is buying bar-turning products, he has no idea about the time factor, difficulties, machine problems...’

‘A technician can’t ignore all that. He’ll say ‘well yes, I understand your problem’. And ‘they²⁴’ don’t want that. They want the ‘killer’²⁵ who’ll come along and’

Manager 10 (p116) echoes Manager 12’s point of view, evoking changes in negotiating practices where young buyers display very different techniques than the older generation;

‘The old negotiating way of ‘take something off that price’ or ‘round down the price to this or that’, is part of the old tradition. Guys who are 60-ish now. I’d say that the younger ones aren’t like that. Now, and this was different from when I started in the business, they say I’ve got a price from Asia or Eastern Europe and you’re 15% more expensive. Can you do it or not?’

Manager 4 (p55) also notices a difference in methods, but also a difference in personnel;

‘We work with an English group called R. They’re Americans but the purchasing is based in England. We had good relationships with all of Europe and they named a purchasing boss to be based in England which didn’t exist before. He has a way which is completely...I mean, he’s your real basic buyer. He’s got to buy the

²⁴ Large clients

²⁵ In English in the text

cheapest possible. We don't have the same supplier-client relationship as before, as with the others'

Bar-turners feel that these new buyers do not understand their craft. They no longer consider the component as a technical part or a machined component to be integrated into a larger machine, unit, but are obsessed with the lowest possible price and price reductions. This attitude is regretted by bar-turners, who are, in the end, quite scornful towards them;

'These buyers, they could buy toilet paper like (they could buy) precision cutting tools. But that's what it's like in that kind of company. The buyers, they just look at the discounts. There were often differences between the buyers and the people in the workshops²⁶, (Manager 14, p181)

VI.4d.2 The Automobile Industry

If there was a scornful attitude towards the new type of purchasers in general, then a second group, people from the automobile industry were particularly disliked. Manager 2 (p26) criticises the methods used by buyers from a major French automobile company during a colleague's experiences;

'He was summoned to talk about new projects. He was in a room with three buyers and a whiteboard, power-point slides and all the rest, the new projects were presented from a technical point of view. Then they (other bar-turners) were put into little transparent boxes and then the buyers showed them the pieces and components to make and asked 'what's your price?'

Manager 10 (p114) criticises the way the automobile groups manage their suppliers. If there is a quality problem, automobile firms will attempt to extract the maximum gain from their superior position, charging bar-turners various costs;

²⁶ At his last place of work, a foreman in a large bar-turning firm

‘If there’s a quality problem our clients ask us to pay for the car in the car park. You have to pay for the stoppages on the production line and so on. We’re not like that’

Manager 12 should have the final word (p196); ‘The automobile people are sharks’. And you can’t trust sharks.

The organizational proximity between bar-turners permits them to align expectations and understand the other’s point of view. Relations with outside clients, as shown below, are made more difficult by a combination of geographic, organizational and cognitive distances.

Part 5: Process based trust.

The major part of this section will be devoted to the way that bar-turners managed their local relationships. Process based trust is the most common sense of the three antecedents; one would assume that building up trust over time and through repeated exchanges is easier and faster with intra district links than with extra district links. This seems to be the case as the contrast between intra and extra district links will show below. In the case of local firms, they were considered more reliable and dependable than others. When asked why this was so, Manager 3 (p38) replied;

‘because these are people who are nearby, we can react rapidly, go over and see them to talk about technical problems or whatnot...’

To be ‘nearby’ accords capabilities and an increased facility in solving possible problems. The fact that the firms are local (and managed by like-minded individuals) reduces uncertainty;

‘like the metal sellers, it’s the same, because they’re local, we know we pay the (right) price’ (Manager 10, p118).

Geographic proximity as a partial basis for trust was sometimes manifested by interviewees in ways that are difficult to see in a typed transcript. The selection process

concerning a new sub-contractor described by Manager 11 is one such example. She explained that she selected a bar-turner sub-contractor who was not ‘not very far from here’ (p134), accompanied by a hand gesture), even though ‘we don’t know each other very well’. The choice of this firm didn’t seem to pose any problems to her and seemed to be without risk. Firstly, because they were local ‘boys’ and secondly they were bar-turners (therefore worthy of trust), and, it was easy to check their work (as discussed above). Bar-turners recognize that relations with locals and outsiders are different. The ‘isn’t the same proximity’ (Manager 5, p58), nor the same mentality when dealing with insiders or outsiders:

‘When you’re talking about how things are with our (local) suppliers, you can negotiate, you can discuss. We understand each other, we’ve got the same mentality, we find meet up again later²⁷, and so we have an interest in getting on together. With a client like that (a German firm) if I want the business to continue we have to get on. Otherwise we might as well stop.’ (Manager 10, p122).

Small firm manager’s decision making is influenced by the here and now (Torrès, 2003, 2004). Geographical and cognitive proximities facilitated the speed at which trusting decisions were made.

VI.5a Indulgence

Sometimes managers criticised themselves for being too indulgent and conciliatory and not forceful enough when dealing with recurrent problems with suppliers (notably surface treatment firms). According to Manager 4, they let the situation get worse;

‘It’s a bit through leniency, not wanting to hit the table’ (Manager 4, p50)

According to Manager 13 (p171), bar-turning is a ‘diplomatic’ craft: ‘We don’t want a conflict’

²⁷ Manager 10 is making reference to repeated exchanges

Accommodating and rather generous strategies are put into place to ensure that the relationship lasts.

‘Sometimes, even though it’s not my fault, I’ll accept paying part because I want to make sure that the other guy doesn’t suffer. I know how to share’ (Manager 6, p71).

Manager 4 (p51) shows that Manager 6 is not a unique case. His conflict with a surface treatment firm was the result of poor workmanship and both sides agreed that the responsibility was essentially that of the supplier, but if;

‘it was 90% their fault, they paid 70%. So if you say that it is 90% their problem and 10% yours, then you get to a 70-30 compromise’

Bar-turners do not seem to seek advantage from their own position of strength with local suppliers;

‘If he’s made a mistake then we’ll make sure things work out. The working relationship goes on’ (Manager 7, p78).

VI.5b Ilunga

It would be wrong to think that bar-turners were naive or that they tolerate suppliers and ‘colleagues’ trying to pull the wool over their eyes for long. Indulgence only goes as far as *ilunga*, a word from the Tshiluba language spoken in south-eastern DR Congo meaning ‘a person who is ready to forgive any abuse for the first time, to tolerate for the second time, but never a third’ (Conway, 2004). I have found the following instances of *ilunga* in the management of conflicts with partners.

When Manager 7 (p78) evokes the possibility that a supplier may be cheating on a particular order, he accords the supplier ‘a right to make mistakes’, at least for a certain period. But;

‘once is rare, twice, ok, but three times: that’s bad faith’,

Manager 7 believes that the objective of their relationship is to prosper together, not to take advantage of one another.

‘If he makes a mistake, we’ll try to make the relationship continue, if not we’ll stop’, (Manager 7, p78).

Three chances is a rough and ready rule which governs bar-turner-partner exchanges as one can see with this quote from Manager 6;

‘The guy who is causing me quality problems, because of our relation, I tend to be indulgent, especially if there’s never been a problem in the past. I mean, if he doesn’t work properly I’ll give him one chance, the second time I start wondering and the third time it’s not possible to work like that anymore’ (Manager 6, p71),

This ‘three times’ rule seems to be Manager 12’s as well;

‘Ok, once, twice, three times, my guys went down there. After a while you say enough! (Manager 12, p115).

VI.5c The gift

I am somewhat reluctant to include gift-giving in an analysis of network governance because neo-liberal economics has no place for gift giving. It has either relegated this ancient and deeply rooted social custom to the family and private realm, or dismisses it through the ideology of the purely altruistic gift. Parry (1985, 458) notes that ‘the ideology of a disinterested gift emerges in parallel with an ideology of a purely interested exchange’. But I have found the following examples of gift giving in the Arve Valley.

Example 1. Subcontracting out work among peers.

It is possible to argue that *giving* work to a subcontractor does not qualify as a gift. If one’s company cannot do a particular operation then one is obliged to find a colleague who can. The act of giving work could be described as a gift in the sense that the subcontractor has a range of possibilities in their immediate vicinity and chooses one firm before another. The manager chooses the company with which they wish to create a relationship. What is

striking and typical of sub-contracting relationships in districts is the cooperative spirit amongst protagonists. There seems little discussion concerning prices and little pressure put on subcontractors' margins. There is a 'fair' price that everyone knows. The gift here is the 'decent' or 'living' margin accorded to a colleague who is similar to the contractor. The 'gift' of a living margin comes from an outside client (who does not understand fully the pricing structure of bar-turning work) and is distributed to the network of local firms by the focal firm. A bar-turner who finds a *chevalier blanc* and employs other bar-turners to complete the orders would be in effect distributing income among partners in the district. Apart from a valuable revenue source, the focal firm would be gaining, reputation (finding a 'golden' client) and esteem (sharing the spoils with local players). Equally, the focal firm would only give the work to firms they trusted to avoid running the risk of a firm poaching the client.

The work is accepted by sub-contracted bar-turners if prices and conditions are 'decent' and 'respectable'. The counter gift is returning the favour and sending work back in the direction of other firm, as described in the example of Manager 11 and the start-up (see below).

Example 2. Knowledge transfer.

Manager 13 transferred tacit know-how about a particular operation when the subcontractor was experiencing difficulties. The gift of knowledge to the sub-contractor obliged the smaller firm to 'play the game', i.e. to make the pieces to the required quality, (no opportunistic short cuts) and respect delivery delays.

Example 3. Conflict resolution.

It would be naïve to picture industrial districts as happy, loving production networks where cooperation reigns supreme and conflict is entirely absent. However actors do seem to avoid conflict and promote long term relationships. In discussions with managers I have frequently seen subcontracting firms 'round out the angles' during a dispute about sharing the cost of a 'mistake'. The 'problem' was frequently interpreted as a mistake rather than opportunistic behaviour. This is done in order for the relationship to continue. Take the case of an error which was admitted by the subcontractor (after discussion), to which a cost was mutually agreed. The contractor, Manager 4, (p51) is in the right and in a position of power agrees to split costs 70%:30%. The gift to the supplier amounted to approximately

200 to 300 Euros. Manager 6 (p71) explains his logic when dealing with a problem concerning the quality of a piece coming from a sub-contractor and destined for an 'outside' client.

'sometimes it's not my fault, but I accept to pay part (of the repairs), because I privilege the long term relationship', 'I pay part (of the costs), so as not to put (the supplier) in difficulties, I know how to share'.

Example 4. The Special Offer

Mendes, a former foreman from one of the larger valley companies, set up his own bar-turning business. One of the oil supply companies offered him the same prices as offered to his former company despite the fact that his start-up would purchase vastly smaller amounts of oil compared with the larger firm. Mendes (p181) explains by making reference to his experience as foreman in the larger firm;

'some suppliers got into (Company B) thanks to me, and when I set up on my own, they returned the favour by giving me the same conditions that we had negotiated in company B'.

I have provided several examples above of bar-turners adopting conciliatory and indulgent attitudes towards members of their community. The social and the economic are never completely separated and bar-turners create social bonds with 'colleagues' and suppliers and reinforce these bonds with gift giving. It is very difficult to refuse these gifts (they bestow an advantage to the receiver). However, if a person having received the gift or favour refused to reciprocate with a counter-gift, that person would be considered untrustworthy, selfish and someone who didn't 'play the game'.

VI.5d Conflict management

When dealing with local conflicts, opportunism was never invoked by the managers interviewed. Problems were perceived as originating from mistakes rather than from cheating, (similar to Uzzi's 1997 observations in the New York garment district). Mistakes which came not from the other bar-turner but from their employee for example;

‘It’s a person who normally a person who works well, it wasn’t necessarily him, but a worker who made a mistake’, Manager 8, p88

Surface treatment operations are, for example, compared to ‘cooking’ because even by following the same recipe one can have different results. Owners of these firms are competent and trustworthy but the employees are ‘under-qualified’. These owners are ‘overwhelmed’ by too rapid growth (which is in itself a mistake to avoid because it is by staying a boss in the centre of a small firm that one can manage the employees).

Bar-turners show their understanding of other bar-turners problems, finding excuses for their sub-contracting colleagues if there was a problem: ‘their machines don’t correspond’ for example. A statement which is in contradiction with the process of choosing a sub-contractor as described by Manager 5 (p57), where the first step is to verify that the machines are adequate for the job.

Frequent examples of *ilunga* attest to managers’ desire to keep relationships alive even when they suspected that something wasn’t right. More interesting still is the compromising when sharing the costs after the mistake has been admitted and the blame attributed.

Bar-turners accommodate demands from clients (buffer stocks, quality levels etc.) as long as product margins remain acceptable. If demands become unreasonable they will attempt to break off the relationship in a subtle and ‘diplomatic’ way, in order to leave the door open for future work. Empathy with fellow bar-turners seems to explain this attitude;

‘on one side we understand them because our investments are heavy (important). You’ve got businesses to run, it’s normal’ (Manager 11, p135).

Part 6: Trusting Outside Partners

Introduction

In this section I shall discuss the problems bar-turners have when attempting to create trusting relationships with partners outside the valley. Many of the solid foundations available to bar turners in the district do not exist or do not transfer in the case of outside partners. These arguments are summarized in a comparative table (6.1 below).

There is a large stream of cluster and district literature dealing with how to find, evaluate and define specific clusters in national economies (see Ketels and Solvell, 2006, for an example of cluster mapping in Europe or Pickernell, Rowe, Christie and Brooksbank, 2007, for a discussion on developing a model for identifying clusters). This is an aspect I have not developed in this thesis because I chose a distinctive industrial district to analyse. From a geographical point of view, this sense of inside and outside is logical because the district is an alpine valley, hemmed in by mountains on both sides with only two exits, upstream and downstream along the Arve River. Upstream was more or less a dead end until the construction of the Mont-Blanc tunnel to Italy in the 1950's. Downstream lead to Geneva, which although French-speaking, has never been part of France.

But inside and outside is not simply a question of geography. Bar-turners, were asked about the problems they had with clients and suppliers, the difference in replies was very clear. If there were problems with local suppliers (notably surface treatment firms), they were quickly resolved. The major source of problems evoked by bar-turners came from outside firms, essentially clients (there are relatively few local clients or outside suppliers). There is not only a difference between inside and outside, but also between large and small firms. Bar-turners often refer to 'problems with large international firms', (Manager 3, p9). Manager 10 describes in length his problems with a large multi-national auto supplier. However the different distances between SME owners and larger, more distant clients doesn't always mean that trusting partnerships are impossible;

'It's a group much bigger than us, but it has a philosophy of a partnership with us. It doesn't look to strangle us, they realise we have to live too' (Manager 2, p25)

Manager 2 remarks that the client is bigger *but* doesn't try to take advantage of their superiority, implying that most clients don't share this attitude.

Locally constructed trust is, as discussed above, based on very solid foundations but these foundations for trust are significantly weakened when dealing with extra-district partners.

In order to provide a transition between inside and outside I shall begin this section with an analysis of the search for interpersonal trust between bar-turners inside the district and compare this approach with barriers set up by the organizational and cognitive distances in relations with outside firms. I shall then rapidly detail the different barriers between bar-turners and outside clients which made trust much more difficult to establish (in many ways these difficulties are the mirror image of points already covered above). I will finish this chapter with the case in point of buffer stocks manufactured for clients. Buffer stocks will lead us to the final section; the question of the leap of faith.

VI.6a In search of inter-personal trust

'neither friends nor strangers' (Lorenz, 1988, 194)

The trust manifested between district actors was an interpersonal trust between similar agents.

Bar-turners hated having to deal with new buyers in client firms. They felt anxious at the necessity of building up personal relationships from scratch (creating shared meanings in fact), whenever a client changed or rotated purchasing staff. The new buyer had to be 'trained' to understand the specifics of the *décolletage* industry and the specifics of their supplier-client relationship.

Manager 12 (p165) thinks that his problems with the company L comes from the fact that 'the people have changed'. Manager 5 (p58) regrets the difficulties in establishing relationships with larger firms where the buyers change frequently. For Manager 18 (p230)

'The problems start when you change buyer'.

‘The turnover is a lot higher today than in the past. There used to be relationships, real working relationships. Today it’s three months with Mr Jean and then eight months with Mr Jacques’, Manager 12, (p163).

Compare this to valley relations where ownership stability could be described as extreme, in the respect that many family firms were in their second or third generation. This stability had a positive effect on trust, in particular between sub-contracting firms in the valley where owners frequently mentioned long-standing exchanges which were transmitted over generations.

‘They’re like relationships between ordinary people, who know each other’ (Manager 2, p27).

In local exchanges, a predominance of small firms in the valley facilitated the creation of direct personal links with other, similar, SME managers (including suppliers and other bar-turners).

Confronted with the problem of how to trust clients which were large, exterior companies, bar-turners attempt to trust on the inter-personal level but are confronted with the impossibility of trying to trust on an inter-personal (micro) level with an organization looking to trust on a meso, organizational level with strict rules and goals incompatible with bar-turners’ ethos. All this is complicated by a high level of staff turnover, staff, who in any case do not think like bar-turners (cognitive distance).

This problem is best seen in contrast to a former (romanticised?) epoch when buyers were organizationally closer to bar-turners and clients’ human resource policies allowed time to create personal bonds. Buyers 20 to 30 years ago were technicians who had been promoted to purchasing. They shared a similar technical background with the bar-turners. Empathy was born of this organizational proximity.

Interviews demonstrated how bar-turners attached importance to interpersonal trust. Personal bonds are created over time where bar-turners become ‘nearly friends’ (Manager 10, p33) with buyers. Manager 12 managed to get to such a point of complicity that he could say that the buyer had ‘changed sides’.

‘And I had a buyer a few months ago say to me: ‘Make a contract. We don’t have one but let’s write one’. This buyer! He was retiring and he suggested setting up a contract. He even went further... this is between us... but he made me pre-date it! Saying ‘the new bosses weren’t in place two years ago, date it then and I’ll sign it like that’, (Manager 12 p164).

Manager 12 is perhaps a witness to a bygone era;

‘At that time our clients came to visit, not like today. You’d work in the morning and go to a restaurant for lunch, very convivial. It wasn’t like we were mates but you talked about other things than just work, families, hobbies, holidays. That’s being lost now’, (Manager 12, p165). ‘There’s no human relations anymore, or in any case a lot less’. (Manager 12, p163).

Manager 12 searches for homophily (in fact cognitive and organizational proximity) as a basis for his relationships. According to him, buyers in the past were first and foremost technicians who understood the production constraints in the business, and were comprehensive towards bar-turners;

‘At the time, the buyers were frequently guys from the design and research office, an engineer or a quality control technician who was promoted to purchasing. He wouldn’t ask for the moon or a miracle. He was a technician. He’d say ‘I can’t ask them that! It’s not possible! These buyers from retailers, Carrefour or Auchan, comes along into a manufacturing firm, a bar-turning firm, they have no idea of machine, time constraints. You get it done they say. A technician will say ‘I see your problem’, but the others no! They don’t want to.’ (Manager 12, p165).

The new generation of buyers were trained in business schools as much as in engineering schools in purchasing techniques directly inspired by major retailing chains. What matters is the final price, order volume and delivery dates. Negotiations are structured around ‘this is the price in China, can you better it?’, rather than any give or take in negotiating a ‘fair’ price. The notion of fairness seemed absent from these relationships as larger firms sought

to take advantage of the suppliers smaller size and weaker negotiating position. Compare this to the situation of negotiations between bar-turners for sub-contracting work.

VI.6b Attitudes towards clients

A bar-turner is a *sub*-contractor or, in French, *un sous-traitant*, *sous-* meaning under. When pronouncing this word, Manager 9 made a gesture with his hand to indicate that the bar-turner was beneath the client. They must submit to the *donneur d'ordres*²⁸. To resume their position, they are under the orders of clients, and as mentioned above they manufacture to order, they do not create their own products. Manager 8 is conscious of her vulnerability to clients: 'It's always us that pay the price' (p87).

This position is a part of their image of their role;

'I would say that unfortunately as a sub-contractor, we are a little bit the safety valve, we have lots of clients today who order at the last minute. You have to react very quickly. We often lay-up raw materials (for them), and there's no commitment on their behalf, apart from pressure from them to do it'. (Manager 3 p35).

Manager 10 (p114) has continual problems with a large foreign automobile equipment firm, such as cancelled orders and unpaid bills. These problems are linked in part to the multi-site, multi-national structure of the client. Manager 10 doesn't know how to manage these problems. He knows he is taking risks when he trusts them but doesn't know what else to do apart from accepting his vulnerability. He seems to trust *business*; clients order and clients pay.

Manager 9 (p101) shows his trust in his clients when he tries to renegotiate the price of raw materials; 'in general, they understand'. Like others, he seems to accept the client as being reasonable and benevolent. This benevolence is considered the legitimate repayment for a (small) supplier who is 'reactive'. A supplier who wishes to 'help out' the client (Manager 13, 174). 'We never let the client down' says Manager 1 (p7). A bar-turner will manufacture and stock up parts for a client without a written order so as to be more flexible

²⁸ Literally 'order giver'

(it does facilitate production because ‘keeping the machine running’ reduces turnaround time). This notion of service (Manager 4, p62) is important to bar-turners because, according to Manager 3 (p35), it distinguishes them from competition in China and Romania.

The attitude towards clients depends partially on the power balance between the two parties. All but one of the bar-turners in my sample were SMEs with fewer than 50 employees. Their clients were systematically larger firms and this imbalance is reflected in the bar-turner’s attitude and sentiment of lack of freedom in the relationship;

‘If it’s a big, important client, we say amen (during an argument about quality). We say ‘you’re not right, but we’ll help you out anyway’. After that, it’s all commercial relationships; it depends on the weight of the client (Manager 1, p6)

Manager 3 (p35) had problems with a client from outside the valley who refused to respect his order (the question of whether it was a firm, written order, or a verbal order for a buffer stock was not clear), but even during the negotiations he demonstrated respect towards the client;

‘we sent several reminders, we asked for several meetings, big debates around the clients table. We were always a bit reserved because the client represents a large part of our sales, so we’re rather reserved, To avoid taking the risk of losing all the contracts with this client for a simple unfortunate affair’.

A conflict about the refusal to pay an order is not considered opportunistic, immoral or dishonest. The good faith and honesty of the client are not called into doubt because it is ‘an unfortunate’ incident which will not be allowed to threaten the longevity of the relationship.

Bar turners are neither naive nor stupid. They know that they cannot trust all their clients all the time, but ‘when a client cheats, we stop the relationship’ (Manager 11, p139).

Clients may not always be honest but bar-turners do seem to trust without thinking too much about it. Manager 5 (p62) for example regrets her openness and honesty when trusting a client:

‘We had a problem there, we developed a part for a client and he didn’t know how to check it himself (for quality). We were unfortunate enough to tell him how and he took the order off us straightaway. Gave it to a colleague and told him how to do the work and the controls. We said ok, it’s finished, we keep quiet now’

And yet Manager 11 (p140) believes that clients are more honest and transparent today compared with before.

The conditions which explain strong local trust are largely absent when looking at trust between bar-turners and their outside partners. I shall review rapidly some elements of extra-district trust before looking at an example of how bar-turners trusted clients too much by manufacturing buffer stocks, with serious consequences.

VI.6c Information and Calculation

If managers can use their network links to gain rich information about local partners, it is much more difficult for them to acquire reliable information about outside firms which participate in few, if any local networks. The primary source of information is the purchasing officer, who may or may not be reliable.

‘We try to interrogate the buyer – will this piece come back? Order 10 000 and we will deliver 1 000 per month – but write it down on the order form’ (Manager 4, p56).

Nevertheless bar-turners do search for information about clients through extended networks which cross district boundaries and they are not entirely without sources of information which put them in a stronger position as this example shows. Manager 7 owns a factory in Romania;

‘We were approached by Dacia in Romania for some ordinary work. I go and see my brother and he tells me that it’s ‘J’ who supplies them. They get the tubes from ‘B’, they roll them on their machines and cut them off. I check the price of the tubes, the rolling and the total production cost is easy to calculate. I give my price to Dacia, knowing that the guys from ‘J’ are good quality workers and not so cheap.

We give Dacia our prices and the buyer says ‘You’re 30% more expensive than our current supplier’. So I say ‘Your supplier is ‘J’, the raw material is from there, we can’t be 30% more expensive. *Au revoir monsieur.*’ (Manager 7, p84).

This typical strategy of asking for 30% less cannot work in a situation of low information asymmetry. In the eyes of the bar-turner, the buyer (from the automotive industry, see above) becomes, quite simply a liar and it is difficult to trust some-one who at best is incompetent or at worst is a liar.

VI.6d Local Norms

Outside firms do not and cannot participate in the construction of local norms. Local norms of behaviour are learnt at home and during lengthy apprenticeships. They are reinforced by frequent contacts where agents verify that these rules are obeyed and strengthened through family and social group pressure. This is obviously not the case with outside clients where bar-turners must construct each relationship one by one. Increasing international competition and a professionalization of purchasers and their methods put bar-turners and their clients on diverging paths and extra efforts have to be made in order to understand each other. With local suppliers;

‘we can negotiate, discuss things, we understand each other, we’ve got the same mentality...with a client like that (a German firm) if I want the activity to last, we’ve got to work together otherwise we should stop’, (Manager 10, p122).

Part 7: Trust not honoured: the problems of stocks

The most important manifestation of misplaced trust in clients was when bar-turners manufactured a buffer stock beyond firm orders and contracts, on relatively shaky grounds, as I have argued above, thus opening up the possibility that these trust decisions were made with different antecedents.

Sometimes producing stock was done at the demand of the client (without a written contract), but frequently bar-turners manufactured stock without specific written or verbal orders. The common policy of manufacturing a buffer stock or stocking up on specific raw

materials for some clients without a contract provides us with a key to understanding trust between bar-turners and clients and analyse the leap of faith or suspension. This decision is a clear manifestation of trust.

A bar-turner will stock parts as a 'commercial' gesture (Manager 5, p56), so as to be 'reactive' (Manager 13, p174). This stock is 'security for them' (Manager 5, p56). This situation is far from being unique in the valley where several bar-turners make buffer stocks for their clients;

'So I have a colleague next door who works for the same firm. He called me up and, we've already talked about this. He said 'What happened?' I said that I had stocks, 'Me too!' he said. I said I've got this part, he said 'me too!', just like I've explained to you, exactly the same thing. That means that everyone is in the same situation, affected in the same way' (Manager 12, p166).

This practice is widespread and recognised as such:

'also, partly we do just like a lot of our colleagues, we assume the stock' (Manager 4, p55)

The value of these stocks may be as high as 10% of sales. The consequences of trusting clients and producing these specific components and pieces and thus making themselves vulnerable to clients stopping or reducing orders as happened to several firms during the sharp economic downturn of 2009.

'... 'Yes, it's a risk we take, at the moment we're sorting things out and...we've realized that we've lost a pile of money on stock that we throw out. Because it was ordered 10 years ago', (Manager 4 p56).

Bar-turner are torn between two forces; clients who want reactive suppliers and their own production constraints. It is sometimes easier to leave 'the machines running' (and therefore over produce) because setting up machines to produce a part represents a significant portion of costs, especially for small production runs as Manager 9 (p96) explains:

‘It’s a problem of delivery delays. We have to deliver on time. In certain cases when you have too many orders, we can’t keep up, so stocks allow us deliver quickly and postpone setting up another production run’

According to Manager 7 (p80);

‘we make small runs so as to optimise setting up the machines, these parts are often complicated, we set up to 2 to 3 runs in advance. We could stock up to six months production (for certain parts).’

Manager 1 (p7) who runs the largest firm in our sample, no longer produces stocks without firm orders because;

‘we put production and planning systems into place and so on, which are rigorous enough and don’t allow improvisation like before. We used to do it, 20 years ago’.

According to Manager 1 (p7), the practice of producing stocks is the domain of the smaller firms who ‘leave the machines turning and we’ll see what happens’. This ‘we’ll see’ attitude is a manifestation of trust in clients while at the same time an acceptance of their weaker position.

The decision to trust by anticipating future orders and stocking parts seems to be based on the simple extrapolation of past orders, their regularity in time and their regularity in shape (i.e. the part’s shape isn’t likely to be modified). According to Manager 4, (p56); ‘historically, if he has ordered for ten years, then we can stock for one year’.

But Manager 4’s rule could be an oversimplification. Manager 13 finds herself in a ‘chronic’ situation where clients demand stocks but refuse to finance them. Manager 13 still has faith in the client even though she knows that the client in question has previously changed supplier because of a question of price. But because the client buys other products from her;

‘We stay in contact because we sell him other products, and we try to draw his attention to the fact that we still have stocks of other parts.’ (Manager 13, p174)

This combination of a simple decision heuristic (extrapolate past orders), production constraints and the desire to satisfy clients, has lead more than one bar-turner to over produce parts without written orders.

With the recession of 2008/09 and the fall of automobile sales, bar-turners have started to realise that this trust towards clients has its limits.

‘And he stopped his orders. He used up the last order and as he orders regularly, we’ve got information sometimes, we’ve got stock. And suddenly he stops because he found cheaper elsewhere. So we say: OK, whatever, it’s possible you’ve found cheaper elsewhere, we understand that you look around, but you should finish buying our stock. And that, that’s difficult’ (Manager 13, p174).

Relationships, and piling up buffer stocks can continue for more than 20 years. Manager 12 had a verbal agreement for a stock of €100 000 in parts for one of his largest clients. The agreement was for €100 000, but Manager 12 trusted so much that he ended up with more than €300 000 on his hands, but ‘ok, the €300 000 was me who wanted to do it. It’s a service’ (Manager 12 p162).

Manager 12 trusted his client (after all, 22 years does count), especially because the relationship survived the 1993 recession reinforced;

‘We had a recession in 1993, nothing like today’s. But there was a crisis. We maintained a certain level. That’s to say there was a drop in orders, of course, about 30 to 40%’ (Manager 12, p162).

The reduction in orders in 1993 was easier to manage because the client warned Manager 12;

‘We were warned. There was a meeting ‘lookout the volume will go down. But we’ll give everyone a little bit (of work)’. Because they could have, it would have

been easy, to take back the work and do it themselves (the client can produce some parts internally) and leave the suppliers with nothing. They never did this. They gave their word. And they respected their word.’ (Manager 12, p162).

Manager 12, after 22 years of supplying the same client, after the testing situation of a preceding recession, had good reasons to trust. He continues to believe that ‘somewhere, they’ll take *their* stock’, but ‘when it suits them, and at what price?’. ‘They’ll take it at a lower price, a Chinese or Eastern European or Indian price’,(p162).

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Chapter VII: Introduction

The existence of trust in industrial districts can be approached from two separate points of view. Theoretically, trust is ‘useful’ or ‘necessary’ for two reasons. It reduces transaction costs (Chiles and McMackin, 1996) thus explaining, in part at least²⁹, how a highly fragmented value chain, with many specialised firms and frequent, repeated interactions, can be more efficient than a single integrated vertical firm (De Propriis, 2001). Other streams of research such as the learning region literature, (Cooke, 2001, Cooke, Clifton and Oleaga, 2005, Morgan, 1997), or the ‘transparency’ model discussed above (Maskell and Malmberg, 1999a, Maskell, 2001, Maskell and Lorenzen, 2004), require trust in relationships as a mediator in order to facilitate the transfer of (tacit) information between actors. Empirically, authors have noted that harmonious relationships and cooperation seem to be the norm in districts or clusters (Putnam, 1993, Harrison, 1992, Bell et al., 2009). Staber (2007) is one of the rare authors who questions the centrality or axiomatic nature of trust in districts, while Paniccia (1998) does mention that all districts do not seem to display the same level of trust.

My first research question as described in Chapter 5 is to examine whether district literature is correct to assume that there are strong trusting ties between district agents. Following from this question is my second research question; what are the sources and antecedents of these trusting ties. My investigation validates many of the theoretical points made in district literature while at the same time questioning assumptions taken by different authors. The findings detailed above allow me to compare and contrast trusting attitudes inside the district on the one hand and between valley firms and outside partners on the other. In other words, I was able to compare trust within and across district boundaries and between different organizational levels.

My third research question relates to the construction of trust as a function of the three antecedents combining and working together (Möllering, 2006). I shall then endeavour to highlight the interplay of the three dimensions in the case of trust between district actors as there is more material to analyse in the case of strong trusting relationships developed inside the district.

²⁹ Increased efficiency from highly specialised firms and the rapid diffusion of tacit knowledge in districts are two other prime suspects which could also contribute to the continued existence of economic agglomeration.

The findings have unearthed a very difficult phenomenon to perceive: that of suspension as developed in Möllering's work discussed above and this is my fourth research question; what is 'suspension'? When the foundations of intra-district trust are contrasted with the relative lack of foundations for extra-district exchanges, bar-turners, when dealing with outside clients, are seen to trust on shaky ground indeed. Few of the trust antecedents which apply to district relationships are valid in exchanges with outside firms. Yet, in the case of manufacturing buffer stocks, several bar-turners have trusted outside clients with unfortunate consequences. How can one account for this behaviour? It is difficult to say that SME owners were naive or that they trusted clients blindly. What caused bar-turners to make this leap of faith?

Part 1: The Existence of Trust and Cooperation in the Arve Valley

My empirical investigation of the Arve Valley industrial district confirms the presence of a generally trusting, cooperative environment between small firms and their managers. Trust between district actors seems to exist in both horizontal and vertical local relationships and manifests itself in a variety of ways. This environment of 'thick trust' conforms to the industrial district literature's much theorised but little investigated claim that trusting relationships between district firms explains the relative efficiency of a spatial agglomeration of specialised small firms when compared with a centrally coordinated hierarchy. Even examples of distrust did not seem to prevent actors from interacting. Miscreants, though rare, were treated with indulgence.

One element discussed above in our findings section was the apparent absence of competitors in the district and the existence of a strong community spirit. These declarations of non-belligerence detailed above would seem to counter Porter's (1990a) claim that intra-district rivalry was the motor of firm innovation in clusters. Part of an answer could be found in the transparency of districts as local markets (Maskell and Lorenzen, 2004). Information flows will be discussed in further detail below, but district transparency would seem to provide sufficient information to allow managers to find market niches where a start-up, or small firm could avoid direct competition. In the Arve Valley finding an un-exploited niche is facilitated by the multiple permutations possible through combining different raw materials (steel, copper etc.), manufacturing techniques (with specific machines) and downstream product markets. These factors facilitate the

occupation of small, competition free niches which may be exploited and defended through the acquisition of tacit knowledge. ‘To each his own speciality’ according to Manager 10, p109.

In this respect at least the culture of trust and co-operation stems not so much from ‘social orientation’, (Bellandi, 2002), or a long history of horizontal linkages (Putnam, 1993), but from structural aspects of the valley’s predominant industry. It is easier to trust other agents when one doesn’t consider them enemies.

Part 2: The Antecedents of Trust: Reason

Part 2a: Information, Transparency and Calculation

The first ambiguity in the literature addressed is the question of calculation or rationality as one of the foundations of trust in industrial districts. As mentioned in part 3 authors taking a predominately institutional approach seem to follow Lane’s (1998) criticism of rationality as an inadequate basis for trust and therefore reject it out of hand. This rejection implies an over-socialisation of agents in districts (Granovetter, 1985), and a negation of agency which would have as effect the repudiation of trust (no decision to trust). Rationality may be insufficient as a sole basis for trust³⁰, but I contend that agents do *evaluate* the likelihood of their trust being honoured (Dupuy and Torre, 2004, Dietz, 2011). I can now provide different arguments to support the contention that agents in districts mobilise their knowledge and information in order to make trusting decisions. Bar-turners, embedded in the local social and business networks have multiple sources of information about who does what and for how much in the valley.

Pertinent, up to date information (notably about reputation) about potential partners does circulate in the valley, but there would appear to be enough doubt and uncertainty to necessitate calling upon trust. The much repeated idea that ‘everyone knows everything and everyone in the valley’ acts as a brake on opportunistic behaviour. The combination of district transparency (Maskell and Lorenzen, 2004) and small networks (Coleman, 1990) inhibits opportunistic behaviour. There are two aspects to this behaviour which are difficult

³⁰ And as I have noted, the rational choice model does not stand up to rational criticism.

to tease out. Firstly, to what extent is the reluctance to cheat (poaching a colleague's client for example) based on the moral imperative taught and handed down from generation to generation? Secondly, how much does this behaviour depend on the calculation of being caught out and suffering sanctions (essentially exclusion from networks and loss of future revenue flows)? Whether everything is known in the district is true or not, managers seem to take it as given in their relationships, and look to protecting their reputations because they believe that information circulates in the valley. For example, Manager 7 (p80) declares that he would never set foot in a supplier's premises so that no one could accuse him of reading the labels on batches in order to steal a colleague's customer. 'People like to gossip' (Lorenzen, 1998, 24).

One may never be able to accurately gauge the weight of an individual's morality in a given situation (and asking the question directly in an interview begs a moral answer), but in the section below on the social learning theory of trust I will demonstrate that actors brought up and educated in a high trust environment do seem to interiorise local rules to such an extent that trusting behaviour becomes a routine basis for action. In any case, in a debate between morality and opportunism, economists would have us believe that agents integrate both the chances of getting caught and the cost of sanctions when making decisions. Williamson (1977, p234) shall have the last (cynical?) word; 'most have their price'.

Part 2 b: Transparency

The idea of transparency is closely linked to information flows in an industrial district but these information flows take on another hue because of different proximities at work. Geographic proximity means that bar-turners can glean information from 'colleagues', suppliers and (local) clients without interaction (Malmberg and Maskell, 1997, 2002). The information obtained from observation of others thanks to geographic proximity is enhanced by cognitive and organizational proximity (Malmberg and Maskell, 2006). It is one thing to see a new machine being delivered to a 'colleague' as one drives to work; it is another to be able to understand exactly what that bar-turner can do with the new machine in terms of new products and new markets.

The transparency in the district is derived from the combination of these different forms of proximity. It has positive and negative connotations for the construction of trust.

Transparency and information flows mean that local exchanges are honest and above board. Locals are trustworthy partly because they can't cheat on prices and can't make short-cuts on quality. But would taking a short-cut even occur to a bar-turner?

Part 2c: Encapsulated trust

Although only a relatively small part of a bar-turners activity, approximately 10%, the practice of subcontracting out work for reasons of scope and scale to other bar-turners is an important aspect when analysing the creation of trust in industrial districts. The practice of giving and receiving work between horizontally related actors reinforces horizontal ties above and beyond, say, adhesion to a local trade organization.

Bar-turners will ensure that product quality and delays are respected, reputations will be reinforced and enhanced. The shadow of the future, particularly in the case of 2nd, 3rd or even 4th generation family firms 'restricted' to a small geographical area, can be very long indeed (Mistri 2003). It is therefore a perfectly rational and a calculated trust decision to give and honour trust in this situation. One's reputation is enhanced as someone who 'plays the game' and the corresponding bar-turner follows exactly the same logic. Mutual subcontracting is an excellent example of encapsulated trust (Hardin, 1992).

VI: 2d The Start-up

A second example of rationality and encapsulated trust at work in constructing trust is the example of a start-up looking for local clients. When a start-up begins to trade in the district, the firms' networks may be relatively restricted. It is in its interest to show it is capable of acting as a sub-contractor to other firms and become a worthy, long-term partner.

The stakes involved in mutual sub-contracting clearly demonstrate two aspects of calculative trust, namely encapsulated trust as discussed above and the shadow of the future (Axelrod, 1984). These results would seem to confirm that managers do indeed reason in terms of encapsulated trust and 'sunk costs'. Game theory seems to apply as

discussed in Maskell and Lorenzen (2004) and quoted above in chapter 10. Organizational proximity and information flows greatly facilitate the calculation of encapsulated trust. I have interrogated a very homogenous group of owners; their bar-turning partners are like them with similar constraints and resources. It is easy for them to put themselves in the other's position and evaluate what their partners' rational behaviour would be; in this case honour trust.

However I could ask the following question: if two agents' motivations overlap completely, can one speak of trust? In the example of 'mutual sub-contracting', the rewards for opportunism would have to be very high indeed to tempt a bar-turner to not honour trust. Perhaps because orders for this type of sub-contracting tend to be relatively small and repeated frequently there is not the occasion to commit a 'hold-up' big enough to justify the cost of sanctions. Or do bar-turners not even think of the possibility of opportunism? This is a question which I shall address in the following section.

Part 3: Routine: Institutions

Introduction

In the discussion of rationality or calculus based trust above, it is clear that district actors' trust based on information flows. Their craft is rationalised as 'concrete' or 'straightforward'. They evaluate the likelihood that mutual interests does indeed coincide, and follow the logic that honourable behaviour today will pay economic dividends tomorrow. This approach leaves little room for altruism, morality, empathy, identity, or local norms of forbearance (Bell et al, 2009). This rationality goes against many researchers' opinions', who consider that if trust is there, it is part of the institutional and historical fabric of the district, as if 'spatial proximity will tend to foster such trust relations', (Gordon and McCann, 2000, 46).

I shall begin by examining the community or team spirit in this tight-knit community with reference to some local norms and rules. This 'spirit' or sense of belonging leads us to the question of identity and role. In turn identities and roles leads us to questions of homophily and isomorphic pressures in the creation of trust.

Part 3a: Community or Team Spirit

Hollis' (1998) desire to see trust built on a logic of 'us' rather than a logic of 'me' finds its empirical manifestation in the Arve valley. The 'Italian' school of industrial districts frequently emphasises the idea that industrial districts are the meeting of a community and a production system (Becattini et al., 2009). According to Luhmann's 1984 theory of social systems (quoted in Lane and Bachmann, 1996), a minimal social system is established once a boundary between an 'inside' and an 'outside' is established. The 'outside' is perceived as unlimitedly complex, while the 'inside' is seen to revolve around a selection of some system-specific properties. I shall highlight results which underline a 'sense of belonging' to the district 'team', and some of the rules, norms and mutual expectations which contribute to the communities efficiency (Becattini, 1992, Storper, 2005).

It is not surprising to see a strong 'team spirit' in a fully functioning, mature industrial district with a large number of family firms which have been passed down over two to five generations.

Part 3b: Fairness and Honesty

When bar-turners sub-contract out work to each other there seems to be little discussion about prices. A 'fair' price was proposed. A price which included an 'acceptable margin' which allows the supplier firm (another bar-turner) to make money from the work. This norm of equity was itself based on information available in the district. Information asymmetry about the sub-contractors costs was very low, as discussed above. The margin shared between the two firms was conditioned by the (outside) client's acceptance of the sub-contracting firm's price. Bar-turners accord each other, and agree rapidly on, a 'fair' price. But if information asymmetries are very low between the two firms inside the district, they are relatively high between the outside client and the focal bar-turner. This situation means that the focal bar-turner appropriates added value from the client in the form of acceptable margin and distributes this margin among their network partners in the district. A 'fair price' therefore is an institution that arises from intimate knowledge of cost structures and a 'us and them' mentality where cost structures (and sub-contracting practices) will be hidden from the outside client. The automobile industry's relentless drive

to unveil suppliers' cost structures and squeeze margins wafer thin is one reason why bar-turners dislike them and consider them 'disrespectful' because they do not respect the local norm of a 'fair' price and a 'living' margin.

When bar-turners are interrogated about the honesty of fellow district managers they tend to rationalise their assumptions of honesty in a manner which illustrates the interplay between information flows and local institutions. Bar-turners explain the honesty manifest in the district by saying that their industry is essentially 'transparent' and 'obvious'. A piece or component either fits or it doesn't. It is either the right size or it isn't. In other words, they explain honesty not through any higher morality but rather through the perceived impossibility of getting away with opportunistic behaviour.

Part 3c: Identity: Defining Ourselves by Defining Others

A community spirit; an us and them mentality, as delimiting a local social system, is even more obvious when the bar-turners' image of themselves are examined and they outside groups which are different from 'us'. Creating a group is a function of what we are and at the same time, a function of what we are not. Two 'outside' groups serve as 'counter' references and therefore define what bar-turners are. These two groups are professional purchasers (i.e. professionally trained purchasers who are neither engineers nor technicians) and people from the automobile industry.

Part 4: Process based trust.

In this section I shall examine two aspects of learning to trust. Firstly I shall briefly examine the idea that physical and cognitive proximities facilitate the creation of trust. I shall come back to this point below in more depth when discussing the interplay between the three antecedents. It shall become apparent that when dealing with local problems or conflicts managers adopted indulgent, collaborative and compromising attitudes (Thomas, 1992). This collaborative approach was manifested by indulgent behaviour, *ilunga* and gift-giving.

Process based trust is the most common sense of the three antecedents, even though it may be slow and therefore costly in business terms (Bachmann and Inkpen, 2011). One would

assume that building up trust over time and through repeated exchanges is easier and faster with intra district links than with extra district links.

Small firm manager's decision making is influenced by the here and now (Torrès, 2003, 2004). Geographical and cognitive proximities facilitated the speed at which trusting decisions were made.

Part 4a: Conflict management

When dealing with local conflicts, opportunism was never invoked by the managers interviewed. Problems were perceived as originating from mistakes rather than from cheating, (similar to Uzzi's 1997 observations in the New York garment district). Mistakes which came not from the other bar-turner but from their employee for example;

Surface treatment operations are, for example, compared to 'cooking' because even by following the same recipe one can have different results. Owners of these firms are competent and trustworthy but the employees are 'under-qualified'. These owners are 'overwhelmed' by too rapid growth (which is in itself a mistake to avoid because it is by staying a boss in the centre of a small firm that one can manage the employees). Bar-turners show their understanding of other bar-turners problems, finding excuses for their sub-contracting colleagues if there was a problem: 'their machines don't correspond' for example.

Frequent examples of *ilunga* attest to managers' desire to keep relationships alive even when they suspected that something wasn't right. More interesting still is the compromising when sharing the costs after the mistake has been admitted and the blame attributed. Bar-turners adopt collaborative and compromising attitudes with local suppliers and other bar-turners (Thomas, 1992, figure 6.1 below). They do not look to take advantage of their superior market position. Value creation activities (with suppliers and other bar-turners) require closer, trusting and more harmonious ties than value sharing activities with clients (Adler, 2001). Clients are larger and in stronger market positions which limits compromise and collaboration to the clients' willingness to fair. These observations concord with the 'learning region' literature and the role of proximities in the transmission of tacit knowledge and therefore innovation (Gertler, 2003) as applied to

industrial districts (Maskell, 2001, Malmberg and Maskell, 2006), but conflict management techniques seen in the Arve Valley place more emphasis on the agency of the managers involved and less importance on the role of internalised norms and values. Managers compromise and maintain long term relationships with other partners because they wish to maintain their own competitive advantage. Their competitive advantage (and that of the district) depends partly on the competitive advantage of their specialised suppliers and thus the importance of trusting ties with them (Porter, 1990a). Adaptation to other local partners represents investments which must be maintained and are as such sunk costs (Maskell and Lorenzen, 2004).

**Figure 6.1: Two dimensional taxonomy of conflict handling modes
(Thomas, 1992)**

Bar-turners compromise with local partners in order to profit from these investments and therefore go out of their way to maintain the ties by being indulgent (but not naïve), and compromising when problems arise because suppliers (almost exclusively local) represent important sources of competitiveness, flexibility and innovation. The Arve Valley district is an industrial based district exploiting existing technologies (rather than a technology based

district or cluster, Saint John and Pouder, 2006); therefore most innovation is process innovation (making pieces faster and cheaper) rather than product innovation.

Part 4b: Indulgence and Ilunga

Many examples of indulgence and ilunga manifested by bar-turners are detailed above. This behaviour corresponds to their need to maintain local links which are crucial to their firms' competitive advantage rather than any desire to be a good neighbour, or blindly adhering to local norms. Two types of local links can be distinguished; mutual subcontracting and specialised suppliers such as surface treatment firms.

Mutual subcontracting is a vital component of a small bar-turning firm's competitiveness because in terms of scale it allows increased production at short notice to satisfy sudden or urgent orders, while in terms of scope it allows a small firm to increase the variety of products proposed, moving beyond their core competencies. Client firms are rarely informed that work has been sub-contracted out.

Specialised suppliers in the immediate vicinity are equally necessary to the small firms competitiveness because geographic proximity limits transport costs and cognitive proximity facilitates information flows and reduces information asymmetries when problem solving.

Part 4c: The gift

I am somewhat reluctant to include gift-giving in an analysis of network governance because neo-liberal economics has no place for gift giving. It has either relegated this ancient and deeply rooted social custom to the family and private realm, or dismisses it through the ideology of the purely altruistic gift. Parry (1985, 458) notes that 'the ideology of a disinterested gift emerges in parallel with an ideology of a purely interested exchange'.

Gift giving has been largely excluded from the analysis of modern capitalism (Bourdieu, 1997, Chaniel, 2008). Gift giving and industrial districts are not throwbacks to pre-industrial society and I shall detail some examples below of gifts which engender reciprocity and trust.

The gift creates a debt or an obligation. No one likes 'owing' someone something, for fear that the 'favour' will be called in one day. Accepting the gift is accepting this debt and the social tie that goes with it (Chanial, 2008). In order to liberate oneself from this debt, agents will return the favour. But because the counter gift can never be like for like (what would be the point?), the original giver finds themselves in debt and therefore the exchange of gifts will never be balanced out over time.

Part 5: The Interplay of Three Antecedents and Trust in Districts

While I have attempted to tease out the different strands of trust creation in industrial districts in order to clarify a complex subtle and multi-dimensional phenomenon, trust creation is dependent on a combination of sources and antecedents. In the following chapter I shall examine how these different elements combine to produce trust (figure 7.2 below). Starting with the interplay between reason and reflexivity, I have discussed above the ample examples of Arve valley managers reasoning and calculating their trust decisions based on the available information and an evaluation of their partners' motivations to honour trust or not. These hypothesis of trustworthiness are then validated through frequent exchanges. There is however ambiguity in this situation because although some managers started relationships with small trial orders (conform to Lorenz's 1998 study of inter-firm subcontracting), more than one manager began new sub-contracting relationships with 'normal' orders, suggesting that they did not perceive risks when contracting with unknown partners and 'plunged straight in'. Managers may accord 'normal' contracts to relatively unknown partners but one should note that few of these initial contracts (or bets, Coleman, 1990) were of a nature to threaten the existence of the focal firm.

Trust was offered, confirmed and reinforced when the sub-contracted firm returned the gift of trust with the offer of work at the correct level of profitability as discussed above. By returning the favour of being chosen as a subcontractor with more work, the subcontracted firm reinforced social bonds and increased interdependencies between the two firms. Creating interdependencies where individual objectives overlap ensures trust (Hardin, 1992). In game theory terms, district relationships move towards a positive equilibrium where it is in the interests of each player to honour trust and play the game according to rules which have proven their efficiency. The players in intra-district exchanges have

strong incentives, both social and economic to obeying the rules. To what extent is this coordination game self-organising and self-enforcing? Each player lacks incentives to break the rules (there are many local, salient examples of firms who have profited from playing the coordination game), and they would prefer others to follow the same rules (Hodgson, 2006).

Figure 7.2: Antecedents and interactions in trust creation in the context of industrial districts (after Möllering, 2006, 110).

This inter-dependency produces encapsulated trust and is best illustrated by the conflict management modes employed by managers. Suppliers represent critical elements of a bar-turners' competitive advantage. Managing supplier relationships with indulgence and *ilunga* maintains these links so important to their competitiveness and ensures profitable future opportunities. It is a perfectly rational strategy. Local norms (honesty, offering living margins) are mobilised as means to an end. If there is a culture of forbearance and cooperation in districts (Bell et al. 2009) it is not because bar-turners are altruistic or naïve trustors, but because managers instrumentalise norms to achieve their own ends.

As one moves in a clockwise direction in figure 7.2 from reflexivity to routine, those strategies that have proved successful in the past are handed down over the generations as 'the way we do things here', or

‘Experiences of firms within the cluster would promote the continued evolution of similar mental models of strategists and managers’ (Pouder and St John, 1999, 1200).

The respect of local norms are verified and reinforced through exchanges as they are ‘socially transmitted and customary normative injunctions or immanently normative dispositions’ (Hodgson, 2006, 18). However, the practice of offering sub-contracting work at razor thin margins during the 2008/9 recession was possibly the beginning of a slippery downward slope where the norm of respecting one’s partner (offering a living margin) began to lose legitimacy and traction in the face of increased competition and deteriorating market conditions. Farrell and Knight (2003) noted similar pressures leading to a diminution in trust in the Bologna machine cluster, but Barabel, Huault and Meier (2007) propose that trust is the solution to the breakdown of close ties under such pressure. In this debate of community values versus individual interest I see no reason to believe that bar-turners would choose to go bankrupt rather than reduce their margins (and offer lower margins to others), or, by the same token, refuse to round out disputes by sharing costs with suppliers. Local norms of indulgence and compromising attitudes may well become a luxury that they cannot afford in the future.

The final interplay between antecedents of trust is the couple routine-reason where agents reflect on and act on what they consider to be ‘normal’. As mentioned above a bar-turner acts in an honest way because bar-turners have no choice. They perceive of their craft as honest because its practical nature excludes possibilities of opportunism (a piece fits or it doesn’t). Bar-turners work to plans provided by others; this is normal activity. The one example provided above of a bar-turner cutting corners and attempting to manipulate prices is a counter-example (and the only one provided by interviewees) which serves to highlight that everyone else (or the majority at least) behaves in more honest, straightforward ways. This individual is not shunned as a cheat, but is considered a ‘character’ that one must keep one’s eye on.

No better illustration of the combination of three dimensions leading to rapid trust formation could be offered than the choice of a new sub-contractor by Manager 10. Originally she chose the company (a start-up) because she recognised the type of machine they were using; knew the reputation of their former company; and, checked their real

capacities by ordering a small, therefore low risk, trial order. The decision to trust was rapid. She could count on the start-up's need for business and need to develop their business networks (encapsulated trust) and was confident that the work would be of the necessary standard (normality and role). The start-up quickly began to sub-contract work back to the older firm thus creating a flow of business and increasing interdependence. To what extent this reversal of sub-contracting work represented a gift (Mauss, 1950:1990) is open to discussion, but the effect of this mutual 'back-scratching' was to create closer links between the two firms and enhance the reputation of the start-up as a player who played by the rules. All the actors were from the same region, born, educated and trained in the valley which facilitated communication based on common values (cognitive proximity) and thus sped up trust creation as the actors used the early exchanges to verify that the other knew and followed the local rules. Local actors may need to verify a partner's adherence to a mutually satisfying idea of equity, but agreements on actions and commitments arrive much more rapidly in the process than during co-operation between actors from different cultures and institutional environments (cognitive and organizational proximity).

When considering the relative weight of rationality compared to routine or institutions in the creation of trust one must take into account the difficulty of analysing whether the agents have interiorized a rule to the extent that they no longer question that norm or rule. Hodgson (2006) discusses the continua of rules between those consciously defined, discussed and decided (such as the road code) and those which, while not innate, are acquired socially, interiorized and not questioned or perhaps even acknowledged by the agents adhering to them, (such as the grammatical and syntactic rules of language). Drawing on the work of Commons (1934) and Veblen (1909), Hodgson stresses the duality of institutions: they may be considered both as 'social rule systems' that structure and enable social interactions, much as the form and disposition of a building (a prison for Commons) will channel possible behaviour and interactions of people in the building, whereas institutions for Veblen start with 'settled habits of thought', or the mental frameworks of the building's occupants. Bachmann (2011, 207), rejects better mathematical models or demands for higher ethical behaviour as bases for trust creation and argues for the preponderance of institutions (as structures) enabling the creation of trust; 'trust is a decision that embedded social actors make in light of specific institutional arrangements'. Bachmann does allow some room however for agents questioning (i.e. deciding to trust) those institutions. At the other end of the continua, Dietz, (2011) takes a

more rational, informational and stage approach to trust creation arguing that agents look for information ('multiple sources of evidence') in order to assess trustworthiness. He maintains that the sequence of evaluation, interaction, evaluation is universal with context shaping the process and progression (virtuous or vicious spiral) at each stage. Dietz, like Bachmann, recognises that agents may evaluate institutions (and partners' rational adherence to rules), but rules and institutions remain external to the agent. In refuting or minimising the place of institutions Dietz (2011, 218) confuses institutions and culture:

'The differences in trust observed in different settings by Bachmann may not have much to do with institutions, but with cultural norms and practices.'

He seems to ignore that culture, being the collective programming of people's minds (Hofstede, 1980), is another way of describing institutions. This implies that people will not always be fully conscious of the institutional constraints in which they are making their decisions, much in the same way that one may speak our mother tongue without realising we are following complex grammatical rules. While Dietz admits that context may shape the trust creation dynamic, he seems to preclude the fact that agents may be evaluating and testing trustworthiness *inside the building* without, as it were, realising where they are. The institutional framework in which the agents in the Arve valley interact may only become apparent to them when the rules are transgressed. Research in this domain is a difficult undertaking (Bachmann, 2011).

In analysing the rational/institutional dichotomy in trust studies one must stress both agency (the decision to trust) and institutional structures. The complexity arises from the fact that institutions are products of social interactions which may or may not be accepted without much conscious thought, therefore constraining our cognitive processes (Hodgson, 2006). Another layer of complexity is added when the institutions themselves become object of trust decisions (Möllering, 2006, Quéré, 2000).

Summary: Trust in Districts

My results and analysis confirm the existence of high levels of trust in the Arve Valley industrial district, *thus answering my first two research questions*. Written contracts between valley firms are rare. Managers work together on specific projects to supply

outside clients with little or no formalism. There seems to be a definite community spirit where managers think in terms of ‘us’ rather than ‘I’ and consider other bar-turners as ‘colleagues’ rather than competitors.

When dealing with local partners, bar-turners reinforce local ties, already strong because of homophily and a community spirit, through gift giving and indulgent behaviour. They manage local conflicts and sub-contracting ties in a compromising manner in order to maintain close ties which are critical to their own competitive advantage. Such a compromising management style will reinforce existing empathy and create stronger inter-personal ties.

Cognitive and organizational proximity meant that mental modes of functioning and local norms were already aligned before transactions began, meaning that trust was created rapidly. Local actors may need to verify a partner’s adherence to a mutually satisfying idea of equity, but agreements on actions and commitments would arrive much more rapidly in the process than during cooperation between actors from different cultures and institutional environments.

Where I differ from many authors in the industrial district field is in the place and importance of agents’ *evaluations* of trustworthiness rather than any ‘blind’ adherence to locally generated norms (and it should be remembered that trust in itself is not a norm). Information flows are very high in districts thanks to cognitive and organizational proximity which is reinforced by observation from geographic proximity and frequent face to face contacts. Relationships between bar-turners and local suppliers are generally trustworthy because reputation effects in small networks, encapsulated trust and the shadow of the future all contribute to the logical appraisal by bar-turners that trust will be honoured. Reputational effects in small networks constrain opportunistic behaviour. Although Bachmann and Inkpen (2011) would consider reputation to be an institution, one must take into account that managers considered any dishonourable practices on their part would be immediately known throughout the district. Small numbers in local networks means that reputational effects are strong. Several managers swore that they would never work again with ‘colleagues’ who poached clients or qualified, experienced workers but were incapable (or unwilling) to give concrete examples of such cases.

Further evidence arguing for a predominance of rational trust creation comes from the conflict management modes used by managers in intra-district exchanges. The indulgence, sharing and *ilunga* demonstrated by bar-turners place more emphasis on the agency of the managers involved in the conflicts and less importance on the place of internalised norms and values. Putnam's (1993) argument, which could be considered the starting point for the 'community values' school, is the opposite; a long history of cooperation ('horizontal bonds of fellowship', 1993, 107) in central regions of medieval Italy lead to norms of collaboration and compromising in Italian industrial districts.

Rules and norms are never completely questions of conscious thought (Hodgson, 2006) and I would underline the difficulty of analysing the place and weight of interiorized norms (Bachman, 2011). When looking at questions of rational choice and institutional based trust one should bear in mind the duality of agents creating, modifying and questioning the institutions in which they are evaluating trustworthiness and the probability of aligned future expectations (Murphy, 2006).

District actors are in many ways uniquely placed to benefit from constructing trust through all three antecedents discussed above. I shall demonstrate below that these intra-district trusting relationships form the template and heuristic for extra-district ties which, in many cases steered bar-turners to trust excessively outside partners to their cost and regret.

Part 7: Trusting Outside Partners

Introduction

In this section I shall address my fourth research question; an examination of the concept of suspension. In order to do so I shall begin with a discussion of the problems bar-turners have when attempting to create trusting relationships with partners outside the valley. Many of the solid foundations available to bar turners in the district do not exist or do not transfer in the case of outside partners. These arguments are summarized in a comparative table (7.1 below).

Inside and outside is not simply a question of geography. Bar-turners, were asked about the problems they had with clients and suppliers, the difference in replies was very clear. If

there were problems with local suppliers (notably surface treatment firms), they were quickly resolved. The major source of problems evoked by bar-turners came from outside firms, essentially clients (there are relatively few local clients or outside suppliers). There is not only a difference between inside and outside, but also between large and small firms. Locally constructed trust is, as discussed above, based on very solid foundations but these foundations for trust are significantly weakened when dealing with extra-district partners.

In order to provide a transition between inside and outside I shall begin this section with an analysis of the search for interpersonal trust between bar-turners inside the district and compare this approach with barriers set up by the organizational and cognitive distances in relations with outside firms. I shall then rapidly detail the different barriers between bar-turners and outside clients which made trust much more difficult to establish (in many ways these difficulties are the mirror image of points already covered above). I will finish this chapter with the case in point of buffer stocks manufactured for clients. Buffer stocks will lead us to the final section; the question of the leap of faith. Table 6.1 regroups the theoretical foundations of intra and extra district trust, thus illustrating the profoundly different basis of trust in the two cases.

	<u>Rationality</u> (calculative)	<u>Routine</u> (institutional)	<u>Reflexivity</u> (process)
<u>Intra-district exchanges</u>	Transparent community market (Maskell and Lorenzen, 2004)	Local norms and values	Rapid trust creation (Sydow, 1998)
	Overlapping social and business networks (Mistri and Solari, 2001)	Normality and familiarity (Möllering, 2006)	Ilunga
	Small numbers & reputation (Coleman, 1990)	Homophily (McPherson et al., 2001)	Indulgence, Empathy
	Shadow of the future (Axelrod, 1984)	Community spirit (Becattini, 1991)	Gift-giving (Mauss, 1950)

Extra-district exchanges	3rd Party	Relationship specific norms (MacNeil, 1980)	Slow trust creation?
	Geographic distance	Organizational and cognitive distance (Boschma, 2005b)	

Table 7.1: Inside/Outside trust relationships

Part 6a: In search of inter-personal trust

‘neither friends nor strangers’ (Lorenz, 1988, 194)

Trust is centred in the individual’s willingness to make a leap of faith when dealing with uncertainty and vulnerability. Trustors want to know trustees. The decision to trust may be based on many dimensions, elements and sources, but the object of trust is first and foremost another person. Lorenz (2001), in his study of machine manufacturers around Lyon, France, saw that managers wanted to know personally the exchange partner before trusting. Ring and Van de Ven (1994) noted that the anchoring of trust in interpersonal bonds created through on-going interactions framed by formal legal contracts, (between organizations) gave way to psychological contracts (between actors) and role interactions were replaced by personal interactions. Therefore I have interrogated SME managers, asking them about their opinions, thus stripping out a layer of organizational complexity.

The trust manifested between district actors was an interpersonal trust between similar agents. Personal-relationship stability is central to building trust (Lane and Bachmann, 1996). In their comparative study of the fitted kitchen and mining machine industry in Germany and Britain, Lane and Bachmann (1996) note that the stability of purchasing staff (i.e. low turnover) is implied to have a positive effect on trust in business relationships.

In local exchanges, a predominance of small firms in the valley facilitated the creation of direct personal links with other, similar, SME managers (including suppliers and other bar-

turners). One of the fundamental bases for trusting other SME managers was homophily; managers shared similar backgrounds and expectations, through schooling, training and family influences (McPherson, Smith-Lovin and Cook, 2001). They had similar preoccupations and communicated easily with each other, creating and sharing local codes and norms. In trust terms, Zucker (1986) spoke of characteristic trust, where agents ascribe trustworthiness to particular groups of people (essentially one's own social group). The coordination advantages of increased cohesion and strong internal bonding among small groups is well documented (see Storper, 2005 for a discussion), and in cluster literature many authors have underlined the role played, for example, by caste and ethnic origins (Dwivendi, Varman and Saxena, 2002, Schmitz, 1999).

Confronted with the problem of how to trust clients which were large, exterior companies, bar-turners attempt to trust on the inter-personal level but are confronted with the impossibility of trying to trust on an inter-personal (micro) level with an organization looking to trust on a meso, organizational level with strict rules and goals incompatible with bar-turners' ethos. All this is complicated by a high level of staff turnover, staff, who in any case do not think like bar-turners (cognitive distance).

Bar-turners had difficulty grappling with relations at the inter-organizational level that larger firms imposed as seen in the examples described above depicting bar-turners' opinions' of professional buyers and automobile companies. They seemed to want to move directly from the inter-organizational level down to an inter-personal level by creating personal relationships and psychological contracts in a socialisation process where they needed to know the purchaser personally as an individual rather than as a 'role player' (Lorenz, 2001, Ring and Van de Ven, 1994).

This problem is best seen in contrast to a former (romanticised?) epoch when buyers were organizationally closer to bar-turners and clients' human resource policies allowed time to create personal bonds. Buyers 20 to 30 years ago were technicians who had been promoted to purchasing. They shared a similar technical background with the bar-turners. Empathy was born of this organizational proximity.

Bar-turners regret this recent past when buyers were 'humans' rather than 'sharks', capable and willing of creating inter-personal relationships in a professional framework. To cap it

all, bar-turners' frustration was increased as client firms rotated buyers frequently in order to limit the creation of strong links where buyers could empathise with district firms. District managers devoted considerable efforts to trying to get to know the outside buyer on a personal level in order to facilitate the co-construction of relationship specific norms and meanings on which trust can be built (Ouchi, 1980, MacNeil, 1980, Detchessahar, 1998).

Summary: Intra and extra

The conditions which explain strong local trust are largely absent when looking at trust between bar-turners and their outside partners. I shall review rapidly some elements of extra-district trust before looking at an example of how bar-turners trusted clients too much by manufacturing buffer stocks, with serious consequences.

The basic trust mechanisms of reason, routine and reflexivity demonstrate the solid foundations of inter-organizational trust in industrial districts. This trust is predominately inter-personal trust between small firm managers with similar backgrounds and preoccupations embedded in a solid all-encompassing social environment. More importantly, for my purposes, the high levels of trust shown in the Arve Valley allow us to contrast and compare trusting attitudes across different organizational levels. When the foundations of trust with insiders are contrasted with the lack of foundations for extra-district exchanges, one finds that bar-turners are on shaky ground indeed. Few of the trust antecedents which apply to district relationships are transferable to outside firms.

Two elements in particular come to light when analysing bar-turners' behaviour when confronted with making trust decisions concerning outside clients. Firstly, trusting habits learnt from strong intra-district inter-organizational bonds are transferred to dealings with outside partners. I will return to this question in detail below when discussing the leap of faith. Secondly, if intra district links are strong, it is partly because they are inter-personal links between similar agents (characteristic trust, Zucker, 1986, Storper, 2005). If relationships with clients were more inter-personal in the past, they have become less personal, more inter-organizational and more arms-distant in recent years as 'formatted' professional buyers trained in new retail chain buying techniques by business schools (rather than engineering schools) create weaker personal bonds with bar-turners during

fewer, if any visits to the district. These factors contribute to making trusting relationships with clients not impossible, but definitely more difficult.

Part 7: Trust not honoured: the problems of stocks

The most important manifestation of misplaced trust in clients was when bar-turners manufactured a buffer stock beyond firm orders and contracts. This question is worthy of examination because it was a clear indication that bar-turners had made a decision to trust clients, passing from 'trust as an attitude in pure psychological terms to trust as choice in behavioural terms', (Li, 2011, 194), and this decision was made, as I have argued above, on relatively shaky grounds, opening up the possibility that these trust decisions were made with different antecedents.

Sometimes producing stock was done at the demand of the client (without a written contract), but frequently bar-turners manufactured stock without specific written or verbal orders. The common policy of manufacturing a buffer stock or stocking up on specific raw materials for some clients without a contract provides us with a key to understanding trust between bar-turners and clients and analyse the leap of faith or suspension. This decision is a clear manifestation of trust.

This is a negative aspect of district transparency where isomorphic mimesis is reinforced by the circulation of information (DiMaggio and Powell, 1983). Stocking up on a part for a client is justified as a service and being flexible. The behaviour is legitimised through the knowledge that other bar-turners are doing so too.

The value of these stocks may be as high as 10% of sales. The consequences of trusting clients and producing these specific components and pieces and thus making themselves vulnerable to clients stopping or reducing orders as happened to several firms during the sharp economic downturn of 2009.

Bar-turner are torn between two forces; clients who want reactive suppliers and their own production constraints. It is sometimes easier to leave 'the machines running' (and therefore over produce) because setting up machines to produce a part represents a significant portion of costs, especially for small production runs.

A Final Question: Why?

In the absence of solid foundations for trust and the manifest lack of homophily, exacerbated by cognitive, organizational, geographic and many cases institutional distance, why then, did the bar-turners trust some of their clients so much? Why did they trust these clients to the extent of producing up to 10% of their turnover in stocks which were client specific and thus making themselves vulnerable to opportunism? It is important to note that this behaviour took place before the recession of 2009. Bar-turners were not obliged to blindly obey clients (there were other potential clients pre-2008) and in many instances they produced stocks without discussion, or over and above an agreed level. It was the recession in 2009, when orders fell approximately 30% across the board, which revealed this trust to be dangerous.

Part 8: The Leap of Faith

Part 8a: Learning to Trust

In the following section I shall attempt to answer the question posed above. Why did bar-turners frequently trust clients up to the point of immobilising 10% of their sales in the form of client specific parts? I shall advance two possible answers to explain this leap of faith; the social learning perspective (Glanville and Paxton, 2007) and identity and role (Möllering, 2006).

As demonstrated above, local transactions benefit from very solid trust foundations which facilitate the leap of faith beyond knowledge and experience, which is trust. One could say that the three foundations; reason, routine and reflexivity (Möllering, 2006), reduce the distance that district actors must leap when deciding to trust³¹. The social learning perspective of trust suggests 'that people extrapolate from localised experiences' (Glanville and Paxton, 2007: 232). Glanville and Paxton find support for the argument that trust is not only socially constructed, but our trusting attitudes are moulded and conditioned by past experiences and not by an innate predisposition to trust. Our cognitive structures are

³¹ Möllering (2001, 2006), following Simmel and Luhmann prefers the expression 'suspension' i.e. (suspension of uncertainty or doubt) to leap of faith. One could just as easily say that actors in districts have less uncertainty to suspend.

acquired from our experiences in the social world (Bourdieu, 1987). Equally, Mayer et al. (1995) consider this 'propensity to trust' to be a function of 'developmental experiences, personality types, and cultural backgrounds' (1995: 715), and to be stable across situations.

Local experience and positive examples showed young entrepreneurs entering the valley workforce that trusting decisions were valid and trust was the most efficient way of organising interdependence between valley firms. Positive attitudes, norms and expectations learnt from early experiences coupled with information passed down through parents, tutors and senior colleagues would be validated by personal, *local* experiences and being local they were therefore more salient as SME managers tend to accord extra weight to the 'here and the now' in running their companies (Mahé de Boislandelle, 1996, Torrès, 2003, 2004). These examples, in this context, induced SME managers to consider that trusting behaviours were the natural state of affairs, a 'default' setting for local exchanges which was then transposed to extra-district relations (Maskell and Malmberg, 1999). These attitudes and the transmission of a basic trusting heuristic would be reinforced by similar attitudes among others in the district and thus ultimately self-fulfilling especially when one considers industrial districts to be 'a package of socially transmitted information, stored as discrete units of ideas and values', (Staber, 2009: 557). This local, trusting attitude would be reinforced by the nature of district dynamics (multiplexity of contacts) and the importance accorded to the 'here and now' by SME managers (Torrès, 2003, 2004).

'Because people have only significant contact with others like themselves, any quality tends to become localized in socio-demographic space', (McPherson Smith-Lovin and Cook, 2001: 415).

Certainly, a history of family firms, long apprenticeships, similar training and geographic proximity conspire to make the managers I interviewed extremely similar in views and thoughts, reinforcing group-think. By quality here I would indicate the 'natural' or 'routine' (and well founded) tendency to trust local partners. This group-think can lead local managers to making wrong decisions as one particular way of thinking and interpreting information dominates the district. Managers become 'trapped' as rules and institutions become habits that form an 'iron cage' and restrain their actions and expectations, (DiMaggio and Powell, 1983, Poudier and Saint John, 1996, Hodgson, 2006, Staber, 2007) leading to closure. Closure which is revealed by the evidence given by two

managers interviewed from outside the district who found that the local networks were difficult to penetrate. Inside the district this ‘group-think’ is a factor contributing to creating trust among like-minded individuals, but may cause unwarranted trust when it is transferred un-thinkingly to outside partners.

Homophily and isomorphic mimesis inside the district contributed to the creation and reinforcement of similar world views and expectations. In an exchange context where bar-turners had few solid foundations for trust with organizationally, cognitively and geographically distant partners, it is no surprise that differences with clients was felt to be a handicap in creating trusting relations (Detchessahar, 1998), particularly when the inter-personal ‘route’ to trust was blocked by clients as discussed above.

Homophilic network structures, combined with rapid information flows and different forms of proximity exert powerful influences on the way actors look to create trusting relationships with outside partners. DiMaggio and Powell (1983) suggest three institutional isomorphic processes; coercive, mimetic and normative. Coercive isomorphic mechanisms were used by clients who didn’t hesitate to take advantage of their size and positional advantages. Of more interest in our case are mimicry and normative processes. Bar-turners trusted outside partners enough to produce stocks partly because ‘everyone was doing it’. Imitation reduces uncertainty. Bar-turners reduce their uncertainty and increase their legitimacy by reproducing the behaviour of relevant others. District transparency facilitates the perception and transmission of this strategy. This behaviour may become detached from its actual utility (DiMaggio and Powell, 1983). Managers may imitate what seems to be a superior strategy (and trusting partners *seems* a superior strategy: the success of district firms attests to this), not because it is superior but because imitation and adoption are less costly in terms of speed and cognition when compared to efforts that individual learning demands of an agent (Staber, 2009).

Staber (2009) notes limitations to imitation between cluster actors. Firstly, imitation may increase competition. When some bar-turners trust enough to produce buffer stocks, some clients may begin to transfer custom to those firms. If all bar-turners produce buffer stocks, risk and flexibility are transferred down the value chain to its lowest levels, ultimately fragilising the weaker district firms. Secondly, imitation may induce managers to ignore other potentially superior strategies. There are over 275 small *décolleteurs* in the Arve

Valley. The valley has been a functional, dynamic industrial since 1945 or even since 1914. Yet a vast majority of local firms remain small sub-contractors. Very few have developed their own products and brands in order to emancipate themselves from the diktats of clients. Thirdly, Staber (2009) underlines the imperfect nature of imitation as managers perceive others' actions, interpret those actions (perfectly or imperfectly) and then implement them (perfectly or imperfectly). *Some* bar-turners may trust *some* clients enough to produce *some* buffer stocks. This manifestation of trust may be interpreted as if the referent firm trusts *all* clients enough to produce buffer stocks.

These processes contribute to the transfer of trusting decisions from one context to another.

'Trust stems from the actors' isomorphism with institutionalized cognitions and actions. Due to external pressures to conform, the imitation of others in the face of uncertainty, or internalised norms and roles' (Möllering, 2006: 65).

Part 8b: Explaining Trust: Evidence of Suspension

Discussions of the foundations of trust miss the crucial point of what trust actually is: a leap of faith, or suspension of doubt, 'beyond the expectations that reason and experience alone would warrant', (Lewis and Weigert, 1985: 970), once the actor has established good reasons to trust and that they consider their decision to trust is 'reasonable' (Möllering 2002, Hollis, 1998).

The three mechanisms examined above form the basis from which agents make the decision to trust – to behave 'as-if' doubt and uncertainty were suspended because, according to Möllering (2006: 110);

'suspension is the essence of trust, because trust as a state of positive expectation of others can only be reached when reason, routine and reflexivity are combined with suspension'.

They lead to trust but cannot explain the decision in its entirety. In order to advance further in my investigation of this central, indeed defining, element of trust, I shall investigate

more thoroughly the concept of suspension, which for Möllering takes several forms, one of which I will develop here – identity and role. My analysis of bar-turners in the Arve valley reveals that they occasionally trust clients too much, not only because of the transfer of trusting attitudes from local to external exchanges, but also because they suspend uncertainty by living out their role as sub-contractors.

Part 8c: Identity and Role:

When one looks into the question of why bar-turners trusted clients enough to over produce stocks, identity and role play important functions. Social identity theory suggests that actors retain a repertoire of social categories with clear characteristics behavioural traits leading to a reinforcement of feelings of belonging to a particular category (Sammarrà and Biggiero, 2001). This is a common idea in trust literature and is reinforced by the idea of self enhancement; the process by which individuals need to see themselves in a positive light. Bar-turners have a very strong identity built up over decades in a restricted geographic space, where there is a very strong ‘us and them’ mentality and many positive examples of entrepreneurs who have succeeded in their family businesses and made the valley famous in France and Europe; thus making the identity of ‘bar-turner’ prestigious and desirable. Linked closely to this identity is the role that bar-turners play. The role of the bar-turner is defined in reference to their major resource: their clients. Hogg and Terry (2000) underline how through the assimilation of self to a prototype (a successful bar-turner, parent, uncle etc. in our case), uncertainty is reduced by following standard in-group norms, behaviours and roles.

The French for sub-contractor – *sous-traitant* – can be literally translated as ‘under-contractor’. Manager 9 made a gesture with his hand when pronouncing the sentence ‘we’re always under the client’. Bar-turners define themselves as being flexible and reactive. They are a ‘safety-valve’ for the larger client. Providing services to clients differentiate them from low-cost competitors such as the Chinese.

Bar-turners do not invent products; they do not have their own patents and brands. As a group they have remained ‘technicians’; producers of other peoples’ parts and components. This is why they define themselves in terms of providing services, being reactive and manufacturing stocks. A bar-turner is subservient, compliant and ‘never disappoints a

client'. The relationship with the client must be maintained even though clients may not be open or entirely honest. During the recession of 2009, many bar-turners reduced their prices drastically. This tactic was not appreciated by other bar-turners for obvious reasons but also because when they increased their prices after the storm, 'the clients wouldn't like that'. Managers talk of themselves as being 'diplomatic' even lax when resolving disputes with clients.

This almost submissive attitude explains why, despite the obvious risk, bar-turners provide stocks for clients. It 'is a safety net for them'. 'We assume the stocks'. This represents a risk and as such, an assumed risk, which indicates trust. Bar-turners have not always been given cause to regret producing stocks. I have heard many examples of clients warning bar-turners that orders would cease at a given date in the future (because of off-shoring or redesign of a piece for example). And many bar-turners only seemed to discover that they had piles of customer specific parts when orders were stopped or reduced. But it is striking to see that even when a client refuses to pay for stock, bar-turners expect reciprocity in return for past services and will appeal to a client's better instincts and fair-play when asking for payment.

There is clearly a collective idea or convention that the 'client is king'. Bar-turners accept vulnerability to clients because that is their role, even if this means assuming (and looking to limiting) the risks that this entails. On the other side, clients also have to play their role in order to create 'a stable fiction of reality' (Möllering, 2006: 114), where agents can build positive expectations of others. Providing stocks, being responsive and flexible, making themselves vulnerable, deserved and demanded comprehension from clients. Bar-turners remain attached to the idea of reciprocity in their dealings with clients. The importance of reciprocity in difficult times represents a psychological contract which can only be inter-personal (Ring and Van de Ven, 1994). There were many instances where this contract was accepted by both sides but refusal to accept it (automobile buyers) or respect it (when a client was sold or the buyer changed) meant trust was not honoured in the cases I have described.

By building up stocks of client specific parts, bar-turners achieved suspension because they arrived at a point where they treated 'uncertainty as unproblematic' (Möllering, 2006: 116). Only during the recession in 2009 did this 'natural attitude', which conforms to their

identity as sub-contractors and their role as providing a service, become a problem. It was only then that many realised that they had been trusting clients, illustrating Luhmann's (1979) idea of trust as a movement towards indifference.

Conclusion to Part VII.

Agents in districts construct strong local trust through a combination of reason, routine and reflexivity. The intertwining of social and economic networks in the district provides high levels of pertinent, up to date information about partners' behaviour, character and reputation. The 'shadow of the future' lies heavily over the industrial district where bar-turners exchange work according to demands of scope and scale. Exchanges are repeated frequently over time and firms, reputations and even clients are handed down over several generations. Local norms and values are learnt from an early age through family, school, vocational training and early work experiences in an industry where long apprenticeships are the norm. The frequent exchanges between district actors permit the construction and reinforcement of district 'code-books' and the verification that partners adhere to these implicit and explicit rules. The sentiment and pride of belonging to a unique local productive system which dominates the industry in France and is a major player in Europe, creates a group or team spirit where agents frequently act in accordance with collective goals in a cooperative spirit rather than purely individualistic behaviour. These factors contribute to strong local ties as is posited in district literature but rarely examined empirically. Strong inter-personal trust in homophilic network exchanges becomes the 'default setting' for SME managers because they are manifestly efficient at the local level. This attitude is spread throughout the district by learning processes mentioned above, repeated and reinforced through isomorphic processes, notably mimetic and adherence to norms (Staber, 2009).

The Arve valley district corresponds to Lewis and Weigert's (1985) criteria for trust creation. I have already evoked the highly homogenous nature of the managers interviewed, which I think is representative of bar-turners in the valley. The higher the level of homogeneity of the group, the higher the level of trust. Equally, the greater the connectedness, the higher the level of trust, (Sydow, 1998). On the other hand, the larger the community, the lower the levels of trust because it is more difficult to monitor behaviour (Coleman, 1990). The Arve valley is a relatively small community of

entrepreneurs where agents believe that 'everyone knows everyone'. Finally, Lewis and Weigert suggest that a high rate of social change diminishes trust. Although the valley is not exempt from social change, relationships between agents seem remarkably stable. In reflecting on intra-district trust I conclude by saying that the strong horizontal trust relationships between bar-turners is a key factor in creating and propagating trust throughout the district.

Industrial district managers are able to benefit from unique combinations of the three antecedents to trust. Each pairing of antecedents seems to reinforce the other in the unique environment that is an industrial district. Institutions (and what is normal) are created through a dynamic social process which combines both the actors bounded rationality and attitudes and visual clues (Murphy, 2006). Reason and reflexivity combine to verify the motivations, expectations and world views of partners.

Different forms of proximity reinforce the creation of trust as they provide a high level of corresponding values, views and expectations from which agents create trust. Geographic proximity becomes resource which mediates other proximities and if managed correctly, facilitates information rich face to face meetings which in turn permit verification of adherence to norms which were in any case similar to start with, thus aiding the creation of local institutions through interaction and validation.

After analysing relationships in the Arve Valley, I would subscribe to the view that trust, in this district at least, is created primarily through a rational process combining large amounts of information available through social and business networks and expert observation. Interdependencies and mutual subcontracting provide the basis for another form of rational, calculated trust: encapsulated trust, which combines with information flows to create reason based trust. I consider these two factors to constitute the predominant foundations of intra-district trust and the model or template for behaviour which is then repeated beyond the subcontracting dyads to other actors in the district.

The information processing aspect to trust creation, despite its obvious flaws, is a logical extension of the view of the district as a transparent community market (Maskell and Lorenzen, 2004) and reflects the important work done by Scandinavian scholars such as Maskell, Malmberg and Lorenzen et al. in placing information flows, both tacit and

explicit, at the heart of any explanatory theory of economic agglomeration (Maskell and Malmberg, 2007).

Although information and knowledge lie at the heart of this literature stream, it has yet to penetrate the examination of trust in districts with the notable exception of Lorenzen's 1998 and 2002 papers. As demonstrated in Part III, few authors have taken trust as a central theme in their research and most district literature treats trust as a path dependent cultural trait built up over years of face to face interactions.

My research confirms the existence of trusting relationship in the Arve Valley and as such conforms to the literature which considers trust as central to the district dynamics. I differ from most of the literature by placing the emphasis on rational choice in the creation trust rather blind adherence to the 'habit' or 'tradition' of cooperation. In support of this argument I have discussed the (to my mind) extraordinary lengths that district managers go to in order to maintain local links which are central to their firms competitiveness. This behaviour including sharing, indulgence, gift-giving and *ilunga*, is a rational strategy of how to advance one's own goals by being a 'team player'. These strategies create the conditions for long term trusting relationships. A 'habit' or 'tradition' to trust could build up in districts over time and become a local norm or routine as managers observe local role models who succeed by trusting local partners. But I believe that too many district scholars treating trust stay at the rather superficial level of observing cooperative behaviour, labelling it a 'local norm' without examining its foundations.

Dietz (2011) suggests this information processing model, including feedback loops permitting verification of hypotheses, to be universal and common to all contexts and cultures, or *emic* (Saunders, et al., 2010). It is not in the remit of this thesis to examine the question of universality of Dietz's model. I would say however that it is possible that managers making trust decisions with district partners may be trusting along rational lines because of their unique position and context. They possess large amounts of information about partners. As SME managers raised and educated in the valley they share many traits with local partners, allowing them to evaluate partners' motives and they recognize the strategic importance of close local ties. Exchanges took place inside a homogenous institutional framework (Wood and Barr, 2005).

While it is possible to explain local trust through its informational and calculative antecedents, it is much more difficult to explain extra-district trust and in particular the trust demonstrated by the decision to manufacture stocks. This decision was made without solid foundations; only slow process based trust seemed valid when clients refused to allow inter-personal trust to grow. My contention is that in the absence of information and the refusal of clients to accept inter-personal trust, bar-turners fell back on other bases to trust, essentially those of routine linked to habits and their role and identity.

There is strong evidence to support Glanville's and Paxton's (2007) proposition that trusting attitudes learnt in local, salient situations may be transferred to other, supposedly similar contexts. The tendency of SME managers to give more credence to the 'here and the now' coupled with the above mentioned information flows increased isomorphic pressures on them to produce stocks for their clients as 'everyone was doing it'.

To construct a solid basis for extra-district exchanges, bar-turners attempted to re-create the inter-personal trust prevalent and common in district exchanges. SME managers in the district proposed a psychological contract (Ring and Van de Ven, 1994) based on reciprocity and 'fairness' (service and flexibility on their behalf against continued orders from the client), which was occasionally refused or rescinded by clients. Local trusting habits were transferred to outside clients, inducing bar-turners to produce buffer stocks, fully expecting clients to recognise this extra service. The recession of 2009 exposed some bar-turners to the negative consequences of their trust. The question that I have attempted to answer is how can one explain this trust in the absence of solid foundations?

The answer lies in the fact that one must not confuse the foundations of trust with trust itself, it is necessary to examine the 'leap of faith' or 'suspension of uncertainty' that is the defining element of trust (Li, 2010, Möllering, 2006). In intra-district exchanges managers have less distance to jump, which is not the case with extra-district exchanges. In order to reduce uncertainty to manageable levels, SME managers accepted their subservient role as sub-contractors in exchanges with their clients. This role is closely linked to their strong collective identity. Not possessing their own products or brands, they took pride in their technical capacities and defined themselves as superior technicians and producers of complicated parts and components. It is their role to provide parts, services and flexibility to larger downstream firms. In return, clients are expected to play their role in the

exchange in terms of fair and honest behaviour. Assuming an inferior role in exchanges allowed bar-turners to manage the risk of relying so completely on partners who did not necessarily share the same values and codes. The suspension of uncertainty enabled bar-turners to fulfil their role to and treating the question of trusting clients as normal and unproblematic to the point of indifference (Luhmann, 1979).

When comparing intra and extra district relationships I suggest that when information is available as is the case in districts, agents build their trust on this information, checking and verifying their suppositions as they progress. Geographic proximity facilitates frequent verifications of cognitive and organisational proximities and adherence to norms and rules (created and confirmed in the process), much as Dietz (2011) has proposed. In the absence of the above factors however, agents fall back on habit (i.e. routine explained by role) and are influenced by isomorphic forces, themselves magnified by the ‘fishbowl effect’ of small networks and transparency in a confined geographic space. Faced with the impossibility of evaluating a possible future, agents employ habit and role-playing permit the leap of faith beyond limited informational bases.

To conclude, my results indicate that not only is trust creation highly context dependent as the literature maintains, but agents construct trust on different antecedents according to whether information is available or not. Dietz’s model may not be a universal model as he claims, but is universal when agents believe they have enough information. Agents in the Arve Valley seem to *want* to trust and search for good reasons to do so. One could advance that bar-turners have no choice; having chosen to go into business (and industrial districts and clusters exert a powerful motivational force on would be entrepreneurs – many successful examples are in evidence), they must act out their role as businessmen and women. Assuming risk is part of the game. Risk and trust are two sides of the same coin. Not trusting would mean closing up shop in the same way that not being able to trust in everyday life would lead to paralysis. Perhaps the social role they choose to play sets them on an uncertain path where trust is ‘mandatory’. They must decide to trust in order to act out their role, and base their decisions on whatever antecedents come to hand. In some contexts these antecedents are transparent to rational analysis (on the part of both trustors and researchers), while in others the antecedents supporting trust are more opaque, depending on interiorised norms or concepts of normality and social role playing in a ‘this

is what we do' manner and thus demonstrating a certain Simmelian faith in fellow man in social interactions.

General Conclusion, Contributions and Further Research

My objective in writing this thesis was to investigate and understand a complex social phenomenon, trust, in a special context that is inter-firm relationships in industrial districts. I was drawn to this question, like many scholars, philosophers and social scientists before me, by firstly, a natural curiosity about the glue that holds society together and, secondly, after extensive reading of industrial district literature, the realisation that this ‘glue’ not only holds society together, but is also, at the risk of mixing metaphors, the oil that lubricates inter-firm exchanges and, as such, is proposed as the ‘secret’ ingredient responsible for the continued existence of some forms of economic agglomeration across time and capitalist cultures. Trust is an important phenomenon in increasingly globalised and specialised economies. Trust studies are a necessary and important part of social sciences because understanding trust better will allow us to better manage, create and repair trust in order to meet societies needs in the future (Lane, 1998, Bachmann, 2011).

As for industrial districts; while many sociologists sing their praises because this form of local capitalism provides meaning and coherence to the lives of many individuals and communities when compared to the dehumanising and alienating processes of Fordist mass production (Piore and Sabel, 1984), I find them to be fascinating examples of a spontaneous and unplanned (at the beginning at least) economic system which can surpass both markets and hierarchies in innovation and productive efficiency.

Throughout this thesis I have attempted to demonstrate the centrality of trust in firstly, interfirm exchanges and then in the specific case of industrial district networks. Part one was written with this objective in mind. Chapter one begins with the idea, current in industrial marketing and strategy literature that as firms specialise they must interact with other firms in order to obtain the resources necessary to realise their organizational objectives (Hakansson, Snehota, 1989). This necessity creates uncertainty and uncertainty is a pre-requisite of trust. Firms may choose to manage their dyadic relationships through a variety of governance mechanisms including credible hostages, equity swaps, buy-outs and contracts (Williamson, 1975, 1985), each of which presents particular advantages and disadvantages in terms of efficiency. Many scholars criticise neo-liberal economics (notably transaction cost theory and agency theory) as taking too dim a view of human

nature where opportunism and individualism reign. They maintain that ‘benevolence and altruism may prevail in business relationships’ (Bachmann, 2001, 338) where honesty and decency exist because socialisation processes mean that agents may behave differently towards other members of their social group, clan or tribe (Hollis, 1998, Nooteboom, 2002). Apart from normative or moral arguments, trust has a clear advantage over other governance mechanisms: it costs less. In following this more sociological theme I have detailed the many dimensions of interfirm exchanges in Chapter 1, identifying key differences between arms-length, instantaneous exchanges of the standard neo-liberal model, and the more realistic and nuanced approach of relational governance.

In Chapter II, I have enlarged my point of view to discuss the network as a specific form of production which is not a ‘hybrid’ form of organization, but exists *sui generis*, and procures many advantages to participating firms such as flexibility and rapid learning. Trust makes its appearance again because in the absence of control, trust is the governance mechanism associated with networks (Bradach and Eccles, 1989).

In Chapter III I begin examining and detailing my research object: an industrial district by considering a district (or cluster) to be a geographically defined network of overlapping business and social networks. Economic geography today takes the creation and diffusion of knowledge as central to explaining economic agglomeration (Maskell and Malmberg, 2007). As global markets exist for many inputs, the local takes on new importance as a source of difficult to reproduce rent producing relationships (Porter and Stern, 2001, Dyer and Singh 1998, Barney and Hansen, 1994). By examining the different dimensions of proximities, I shall attempt to understand the creation and transmission of knowledge, particularly tacit knowledge, within and between firms. In this literature stream, the continued existence of industrial districts is explained (partially) by the rapid diffusion of tacit knowledge through trust based relationships embedded in a social-economic context where a given community meets a technological process (Maskell and Malmberg 1999a, Malmberg and Maskell, 2002, Maskell, 2001, Becattini et al. 2010). I then proceed to describe in Chapter 4 different dimensions of an ideo-typical industrial district and compare and contrast different forms and manifestations of economic agglomeration (Paniccia, 1998). To summarise an abundant literature, an industrial district is a geographically defined heterarchy of predominately small firms active in the same industry where no one firm possesses sufficient power to dictate terms and impose conditions on

others in case of dispute. The Italian school (Becattini et al., 2010, Putnam, 1993) emphasises the efficacy of the community based production model where local norms and a long history of cooperative behaviour reduce transaction costs and permit the transfer of tacit knowledge in trust based relationships.

Having established that trust is a central element of dyadic, network and district relationships, I turn my attention in Part II to a detailed description of trust in inter-organizational literature. This is not a simple task because trust literature rivals district literature in its profusion and confusing tendency to employ different terms to signify the same phenomenon or idea. The introduction to Part II introduces several basic concepts of trust and I hope gives an inkling of the progress made in trust studies since the rapid increase of their popularity in the 1990s and of some major questions which remain in this field (Li, 2012). In order to clarify the plethoric literature on trust I adopted a theoretical lens first proposed by Lane (1998) and developed by Möllering (2006) which helps classify different approaches to studying trust as well as identifying three different antecedents to trust creation; reason, routine and reflexivity. Having established the three different antecedents in chapters 5 to 7, I then turn my attention to the concept of suspension because, paradoxically, the three antecedents can only partially explain trust. If there was sufficient information to give agents certitude as to their partners motives, then trust would not need to be invoked because perfect information and unlimited calculative powers would render the future perfectly predictable. In the same vein, if all agents blindly and unquestionably followed explicit or implicit rules, then their future behaviour would be equally predictable, thus eliminating the need for trust. Trust may be created through a slow, step by step process as agents learn about the other's motives and expectations, but this approach cannot explain why anyone would take the first step. Trust, as Hollis (1998) notes, works in practice but not in theory. Möllering, (2006) proposes the concept of suspension or leap of faith as a central defining element of trust. It may be a central element, but it is extremely difficult to isolate and examine.

Having defined my research object, the industrial district and the specific aspect that I wish to examine, trust, in Part III I proceed to examine how trust is treated in the district literature. Results were overall disappointing. While trust is advanced as central to the communitarian model district scholars have rarely treated the question of trust as central to their research (Staber 2007). If mentioned at all, it is frequently used as a *deus ex machina*

to explain phenomena which do not fit into either the theories or results being discussed. When it is central to a research paper, the lack of an overall trust theory inhibits and lessens the coherence and impact of the research which examines the link between place, proximities and trust (Murphy, 2006). Perhaps I should not be too harsh on district scholars because even specialists in trust studies can find themselves ‘hogtied’ when examining this elusive concept (Lewicki et al., 2006) and specialists readily admit that there lacks an overarching theory of trust (Li, 2012).

Nevertheless there is a clear gap in the literature which I have described in detail in Part IV where the following broad research questions are developed;

- Are industrial district relationships characterised by high levels of trust? And if so, how do intra-district embedded relationships compare with extra-district relationships?
- Where does this trust come from? Is there one antecedent which dominates the others and if so which one and why? What is the interplay between the three antecedents?
- And finally, what is ‘suspension’ or the leap of faith? Is it possible to observe and if so how is it defined?

In Part V, I describe my choices of research methodology. The creation of trust must be contextualised because agents trust on the basis of ‘good reasons’ (McAllister, 1995) which are based in turn on their experiences in interacting with the world in which they evolve. I am interested in understanding how agents use ‘social constructivist processes in order to account for their experiences’ (Stokes, 2011, 55). The creation of trust cannot be understood without reference to the trustor’s world view. In-depth semi-directive interviews seemed the best way to enter their ‘world’ and attempt to understand their very subjective good reasons to trust. An inductive, interpretative approach was chosen because inductive research allows findings to emerge from frequent and dominant themes found in raw data.

I interviewed 20 SME owner/managers in the Arve Valley industrial district over a period of 18 months. The Arve is one of France’s few surviving industrial districts. It is situated in

the centre-east of France, about 50 km from Geneva. It is made up of about 275 bar-turning firms, all situated in a narrow mountain valley round the town of Cluses.

The results section, Part VI describes in very fine detail the intra- and extra-districts relationships that exhibit varying degrees of trust and trust creation which I summarise before exposing the contributions of my research to the literature of trust as summarised below.

Contributions and Future Research

The Creation of Trust in Industrial Districts

My detailed description of the existence of long-term trusting relationships in a dynamic industrial district conforms to the district literature which places trust at the centre of the communitarian model. This ‘thick trust’ was more often advanced in district literature in theoretical terms as the result of frequent face to face contacts between like-minded agents sharing local norms of forbearance and cooperation (Harrison, 1992, Bell et al. 2009, Putnam, 1993), than examined in detail through empirical field work.

My first contribution to the industrial district literature is to reveal how district actors create trust as they are uniquely placed to benefit from each of the three antecedents of trust.

Agents in districts construct strong local trust through a combination of reason, routine and reflexivity. The overlapping of social and economic networks in the district provides high levels of pertinent, up to date information about partners’ behaviour, character and reputation. The ‘shadow of the future’ lies heavily over the industrial district where bar-turners exchange work according to demands of scope and scale. Exchanges are repeated frequently over time. Firms, reputations and even clients are handed down over several generations.

Local norms and values are learnt from an early age through family, school, vocational training and early work experiences in an industry where long apprenticeships are the norm. The frequent exchanges between district actors permit the construction and reinforcement of district ‘code-books’ and the verification that partners adhere to these

implicit and explicit rules. The sentiment and pride of belonging to a unique local productive system which dominates the industry in France and is a major player in Europe, creates a group or team spirit where agents frequently act in accordance with collective goals in a cooperative spirit rather than purely individualistic behaviour.

Strong inter-personal trust in homophilic network exchanges becomes the 'default setting' for SME managers because they are manifestly efficient at the local level as shown by the bar-turners tendency to voluntarily evoke problems encountered with clients rather than 'unfortunate incidents' (easily resolved) with local suppliers. This attitude is spread throughout the district by learning processes mentioned above, repeated and reinforced through isomorphic processes, notably mimetic and adherence to norms (Staber, 2009).

My second contribution to the district literature is the proposition that the primary source of trust in districts derives directly from the high levels of information available to local actors. This proposition does not exclude the other antecedents but actors firstly search for information in their immediate environment and personal networks upon which they will base their decision.

My proposition that the predominant antecedent in intra-district relationships is a reason based trust is contrary to the position adopted by many district scholars. Yet, as I have mentioned above, maintaining that district actors rely on abundant information to make trust decisions is the logical extension of viewing districts as 'community markets' (Maskell and Lorenzen, 2004) where district transparency and cognitive and organisation proximities facilitate decision making. I do not suggest that reason is only antecedent employed, the three combine together and reinforce each other, but reason seems to dominate the other two.

I suggest that the dominant antecedent for intra-district trust is reason because of the availability of information to make a trust decision. This information comes from different sources, as described above, but its transmission is facilitated by the organizational and cognitive proximities of the agents in the district. Geographic proximity mediates and magnifies the information as SME managers accord more importance to the 'here and the now' when searching for and evaluating information (Torrès, 2002, 2004). Organizational and institutional proximity facilitates the appreciation of a partner's motives and

expectations when sub-contracting between bar-turners, permitting a rational evaluation of encapsulated trust.

Further research may investigate if and how agents prioritise information in their evaluation of trustworthiness.

Learning to trust

A significant contribution of this thesis to trust research is to reveal that actors learn to trust in and from their social environment. The proposition that actors learn from early formative experiences and follow cues from their immediate environment is not new to social sciences, but the idea that actors could form trusting attitudes in a particular context and then using these mental modes as a decision heuristic, transfer this ‘default setting’ to other contexts provides significant support for the social learning theory of trust as opposed to the notion that trust was innate.

Future research in this domain could look to validate the generalizability of this proposition because, as I readily admit, one analysis of one industrial district may simply reflect the specific attributes of one particular population. There should be however sufficient industrial districts exhibiting similar characteristics to the Arve Valley to enable direct comparisons. The difficulty lies in finding an elusive phenomenon; that of decisions made on (possibly) insufficient bases where agents used trust heuristics in the wrong contexts.

Suspension

Validating empirically ‘thick’ trust in industrial districts, its inter-personal dimension and adding empirical evidence to the social learning perspective of trust are interesting contributions to trust and district literature in themselves. However, concerning the question of extra-district trust, bar-turners make trust decisions in the absence of such solid bases and as such the search for *their* good reasons to trust must go beyond a reason, information based antecedent.

The major contribution of our thesis is in the examination of a suspension mechanism invoked by bar-turners in their exchanges with external clients. Because one must not confuse the foundations of trust with trust itself it is necessary to examine the 'leap of faith' (Lewis and Weigert, 1985) or 'suspension of uncertainty' (Möllering, 2001, 2006) that is the defining element of trust. In order to reduce uncertainty to manageable levels, SME managers accepted their subservient role as sub-contractors in exchanges with their clients. This role is closely linked to their strong collective identity. Not possessing their own products or brands, they took pride in their technical capacities and defined themselves as superior technicians and producers of complicated parts and components. It is their role to provide parts, services and flexibility to larger downstream firms. In return, clients are expected to play their role in the exchange in terms of fair and honest behaviour. Assuming an inferior role in exchanges allowed bar-turners to manage the risk of relying so completely on partners who did not necessarily share the same values and codes, nor operate on the same organizational level. The suspension of uncertainty enabled bar-turners to fulfil their role to the point of treating the question of trusting clients as normal and unproblematic to the point of indifference (Luhmann, 1979).

Strong trusting relationships in the valley may be built on solid foundations, but one cannot say the same for exchanges with outside partners. Of the three foundations for trust, only process based trust was applicable to this situation. To construct more solid basis for extra-district exchanges, bar-turners attempted to re-create the inter-personal trust prevalent and common in district exchanges. SME managers in the district proposed a psychological contract (Ring and Van de Ven, 1994) based on reciprocity and 'fairness' (service and flexibility on their behalf against continued orders from the client), which was occasionally refused or rescinded by clients. In fact, local trusting habits were transferred to outside clients, inducing bar-turners to produce buffer stocks, fully expecting clients to recognise this extra service. The recession of 2009 caused some clients to drastically reduce their orders and therefore exposing some bar-turners to the negative consequences of their trust.

Faced with a situation where they had little information about organizationally, institutionally, cognitively and geographically distant clients, bar-turners had to assume the risk of producing client specific stocks and thus manifested their trust. They seemed to take a very large leap of faith indeed in this case. They seemed to have transferred trust habits built up inside the district to outside clients and acted according to isomorphic forces,

while relying on acting out their perception of a bar-turners role in client-supplier relationships. A bar-turner is a *sub*-contractor, and assumes the risk of being in an inferior position.

In conclusion, intra-district trust was based on information and calculation of trustworthiness and encapsulated trust in homophilic networks, whereas extra-district trust was based on routine. Routine reinforced by isomorphic forces in the 'fish-bowl' environment of the Arve Valley and supported by the suspension mechanism of role and identity as agents played out their chosen social roles.

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Appendices

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Appendice 1

Manager	Company Type	N° Employees	Date	Duration	Remarks
Manager 1	2 nd generation family	123	7-12-08	1h	
Manager 2	Employee buyout	14	17-4-08	1h15	
Manager 3	Employee buyout	10	14-5-09	1h30	Outside owner
Manager 4	2 nd generation family	25	8-7-09	1h30	Run with brother
Manager 5	3 rd generation family	9	7-12-09	1h	Run with 2 brothers
Manager 6	3 rd generation family	32	16-7-09	1h30	Run with cousin
Manager 7	5 th generation family	28	8-12-09	1h15	
Manager 8	Employee buyout	3	20-5-08	1h15	
Manager 9	2 nd generation family	8	26-6-10	1h	Run with 4 brothers
Manager 10	Workers Co-op	47	28-9-09	1h30	
Manager 11	2 nd generation family	34	30-6-09	1h30	Run with 3 brothers
Manager 12	2 nd generation family	40	16-7-09	1h45	
Manager 13	2 nd generation family	30	5-10-09	1h	Run with brother
Manager 14	Start-up	2	17-3-08	1h30	
Manager 15	5 th generation family	8	8-7-09	1h30	
Manager 16	2 nd generation family	12	30-6-09	1h30	
Manager 17	2 nd generation family	17	30-6-09	1h	
Manager 18	3rd generation family	10	8-7-09	1h30	Run with cousin
Manager 19	Employee buyout	20	24-6-10	1h	Outside owner
Manager 20	2 nd generation family	3	17-3-08	1h	

Appendice 2: Results tables from interviews
(full interview transcripts to be found in data set)

	Information - sources - transparency	Interdependence	Social Embeddedness (social and/or org proximity)	Identity	Local Norms and values
Manager 1			Family companies have a social responsibility, p9 Sub-contractors are like us, p4	Technicians not salespeople, p3	
Manager 2	Info from father-in-law of friend, p21 Uses local trade directories, p23 No secrets in valley, p21 Common client gives info, p23	Client is partner, p25	Other bar-turners not competitors, p27	Client has SME outlook, p25 Bar-turners don't invent products, p27 Partner from the valley 'a pure', p28	
Manager 3					
Manager 4	S-contractors don't have quality certificates, Manager 4 assumes responsibility, p46		Big firms don't think like small firms, p53 Non bar-turners don't understand, p54		
Manager 5		Sub-contractors work in both directions, p57	2 nd generation partnership, p58		A 'fair' margin with local bar-turners, p2
Manager 6	Info from man who married a cousin, p69 Uses local trade directories Bar-turners keep an eye on each other, p67 Knows price of each operation and part, p71	Equal footing with other bar-turners, need each other, p76	Even with recession there's enough place for everyone, p66	we're all from manufacturing p70 social responsibility p70	

	Information - Sources - Transparency	Interdependence	Social Embeddedness (social and/or org proximity)	Identity	Local Norms and Values
Manager 7	Brother supplies info about client, p83				A 'fair' margin with local bar-turners, p81 Knows 'right' price, p84 Will not be found in position to be accused of poaching client, p80
Manager 8	Local buyers put pressure on prices, p90				
Manager 9	Knows s-contractors production capabilities, p95 Word of mouth for new partners, p95		Affinity creates links, p104	Bar-turner a subcontractor, p98 Provides services, p99	'Helps out' friends, p94
Manager 10	Started mountaineering club		Same mentality as local suppliers, p122		
Manager 11	No need to discuss prices with sub-contractors (same structure), p135	Rapid reciprocity with sub-contractor, p134 1 st order was 'interesting' for start-up, p162	Understands other local companies, same pre-occupations, p135		Doesn't talk about clients with other bar-turners, p137 Margins 'normal', p135
Manager 12,	Telephones other bar-turner to talk about stock, p166	Win-win with sub-contractors, p162	Buyers were technicians first, buyers second, p165 Stronger relations with older style buyers, p164		Reducing prices is not ethical, p149/150

	Information - Sources - Transparency	Interdependence	Social Embeddedness (social and/or org proximity)	Identity	Local Norms and values
Manager 13	Uses trade directories, p169 Everything gets known, p179			Reactive to clients demands, p174	Transparency for reputation, p179
Manager 14	Everyone knows everyone, p180			Critical of buyers, p181	
Manager 15	Frequent exchanges of information, p185 Prices known, p188	Mutual subcontracting, p183	Bar-turners have same training, p185 Team spirit, p185	All bar-turners the same, p184	Don't ask names of clients, p184 Behavioural norms, p185 Don't poach workers, p186
Manager 16	Clients try to learn margins, p232	Specialist suppliers reduce investments, p190			
Manager 17	Extreme prices easy to see, p205 Clients in common with supplier, p208		Ski club, p207	Firms bought by outsiders who don't know craft, p210	Quality of work, p210 Reputation spreads quickly, p211
Manager 18	Info from buyer, p227 Lacks info about client's intentions, p225	Helping each other out, p219	Grand father worked with same suppliers, p220		
Manager 19	Locals keep secrets to themselves, p232			An outsider: difficult to integrate, p232	
Manager 20				Sons of bar-turners p238	

	Geographic Proximity	Co-operation	Clients (attitudes, relationships)	Ilunga	Indulgence (in exchanges)
Manager 1			Never disappoint a client, p7 You're not right, but we'll help you out, p6		If sub-contractor is late – must be patient, p5 Problems with s-contractor are ambiguous, p6
Manager 2		Doesn't consider other bar-turners to be competitors, p27	Criticises auto-industry buying techniques, p26 Helps out clients, service, p26		Difficult to know origin of faulty part, p22
Manager 3	Proximity facilitates discussions and reaction times, p38	Shares risk of stock with their s-contractor, p36	Problems with larger companies, p35 Bar-turners are safety valve for clients, p36 Provide service, p30		
Manager 4	S-contractor is a neighbour, p45 Stayed with surface treatment firm despite problems because of price and proximity, p49	Shares costs in dispute, p51 Sub-contractors don't have quality certificates, Manager 4 assumes responsibility, p46	Restructuring means purchasing based in UK, p55		A little lenient, doesn't want to thump the table, p50 Surface treatment firm manager doesn't take shortcuts, but staff aren't honest, trained, p53
Manager 5		Part of GIE for purchasing, p63	Don't have same mentality, p57 Provide service, p62		
Manager 6	Magland different from Cluses, p66	Enough work for everyone, even in a recession, p66 Shares costs in dispute, p71 Part of GIE	'White Knight' p67 Client always right, p70	After three times (a problem) change supplier, p71	Admits being indulgent, p70
Manager 7		Don't get rich on the back of supplier, p78		Three times (a problem) is bad faith, p78	Supplier has the right to make a mistake, relationship continues, p78
Manager 8	Local firms don't respect 'correct' prices, p89	Makes efforts for friends, p89	We always lose out when dealing with clients, p87		Worker, not boss makes mistakes, p88

	Geographic Proximity	Co-operation	Clients (attitudes, relationships)	Ilunga	Indulgence (in exchanges)
Manager 9	Neighbourhood quarrels between bar-turners, p103	Neighbour is colleague not competitor, p103	Bar-turner a <i>sub</i> -contractor (inferior position), p98		Looks for compromises in local negotiations, p95
Manager 10	Local suppliers means 'honest' prices, p118	Each firm has its own specialty, p109	Clients exploit small suppliers, p114 Depend on client, p108		
Manager 11	Chooses new supplier 'not far from here', p134		Clients more honest today, p140		Tolerates older bar-turner who frequently alters prices, p142
Manager 12	Prefers to see a partner to discuss problems, p166	Exchanges info with partners, p163		After three problems , a visit, then stop relation, p155	
Manager 13	Chooses nearby suppliers, p169	Passes tacit knowledge to subcontractor, p179	Must help clients, p173 Be reactive to clients		Diplomatic approach, doesn't want a clash, p3
Manager 14					
Manager 15		Refused to work with client of partner, p184	Client is sacred, p184		
Manager 16	If other firms in district can do it, so can we, p200 Proximity a strength for local firms, p192/200	Doesn't penalise a supplier in case of disagreement, p194 GIE, 201	Auto-industry are sharks, p196 Clients abuse dominant position, p194		Resolve problem with supplier in a friendly way, p193
Manager 17	Harmonious relationships in valley, p210	Work as partners, no contract, p199			
Manager 18			Clients change specifications at last minute, p226		Compromise in conflict with local supplier, p229
Manager 19					
Manager 20	Gets advice from retired bar-turner next door, p245	Shares tools with neighbour, p240	3 rd generation clients, p242 Flexible for clients, p184		

	Risk	Manifestations of trust	Manifestations of distrust	Technical competence	Stocks
Manager 1	Never take a risk with stock, p6				No stock for client without signed order, p7
Manager 2		Doesn't use contracts, only written orders, p22		Part is either right or not, p23	
Manager 3	Have to assume risk of stocks, p37 B-turner is safety valve for clients, p36		Many clients refuse to write a contract, p35 Clients put pressure on s-contractors, p36		
Manager 4	We assume the (risk of) stock, p55	S-contractors don't have quality certificates, Manager 4 assumes responsibility, p46			If client orders for ten years, we can stock one year's production, p56
Manager 5	Takes the risk of stock, p59	Gave information to client and lost contract, p62 Produce on verbal orders, p61	Problems when purchasers change, p58		
Manager 6		I trusted, like any other relationship, p72 Orders raw materials by telephone, p75	Type of spying to get clients name, p67		
Manager 7			Found that auto firm was lying about costs from other supplier, p84		Stocks facilitate production schedules, p80
Manager 8			People in the valley don't respect us, p89		

	Risk	Manifestations of trust	Manifestations of distrust	Technical competence	Stocks
Manager 9	Assumes stock, p96/97	Clients understand price increases, p100	Some bar-turners bribe purchasers, p103		Stocks facilitate production schedules, p96
Manager 10	Worry over losing client, p109 Smallest firm in supply chain, p118	Worked with 2 suppliers and provided ISO norms necessary, p110	Clients look for mistakes to reduce prices, p120	Component is ok or it isn't, p114	
Manager 11,	A risk we have to take, p145 Business is a risk, p147	'Normal' first order from new sub-contractor, p134	Knows that one bar-turner will try to cheat, p142		
Manager 12		Verbal agreement for €100 000 of stock, p161 They'll take back <i>their</i> stock, p161	Will now use contracts more often, p163 Packages at transporters, surface treatment firms had clients names masked, p147		Produced €300 000 of stock without agreement, p161
Manager 13	No shelter from risks, p172	Produced stocks without order, client won't pay, p173		Sub-contractors are from the valley, professionals, p169	Asked clients to take stocks, p174
Manager 14					
Manager 15					

	Risk	Manifestations of trust	Manifestations of distrust	Technical competence	Stocks
Manager 16			Car industry attempts to steal tacit knowledge, p196		Stocks imposed by clients, p197
Manager 17	Auto industry pushes risk down to smaller firms, p197	Client warned of end of contract 3 years in advance, p204 No contracts for local orders, p205		Chooses sub-contractors by machines, p208	
Manager 18	Stock is an assumed risk, p227	Large first order from local bar-turner, p217 Client sent prototypes to competitor, 224	Purchasers change frequently causing problems, 230 Concentration of supplier firms, p222		Asked clients to take stock, p226/227
Manager 19					Stocks produced according to history of purchases, p234
Manager 20					

Appendice 3: Interview guide

Introduction. Outline reasons for interview. Thank manager for time spent.

- How long in industry, born in the valley, trained in the valley?
- Family firm? History of family firm? Other family members in industry?
- Children in industry? Children having difficulty finding work experience in other firms?
- Problems of 'spying' on other firms?
- If manager from outside... problems of integration, what problems, why these problems exist?

Relationships with other bar-turners and suppliers

- Sub-contracting arrangements. With how many other bar-turners? Mutual sub-contracting? Who was latest entrant into network? How chosen? What problems have arisen, if any, what are they, how were they resolved? How are prices decided?
- Suppliers, problems, what types, which suppliers, how were they resolved?

Relationships with customers

- Problems, resolution etc. as above.
- Professional buyers, types of clients.
- Stocks, do you make stocks? With contract or not? How much of CA is tied up in stocks. Why? Deception and attitudes towards the question of stocks...